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United Nations Relief and Works Agency for Palestine Refugees in the Near East

Persons displaced as a result of the June 1967 and subsequent hostilities

Report of the Secretary-General

1. The present report is submitted to the General Assembly in pursuance of paragraph 5 of its resolution 51/126 of 13 December 1996, entitled "Persons displaced as a result of the June 1967 and subsequent hostilities", the operative paragraphs of which read as follows:

> "*The General Assembly*,
>
> "...
>
> "1. *Reaffirms* the right of all persons displaced as a result of the June 1967 and subsequent hostilities to return to their homes or former places of residence in the territories occupied by Israel since 1967;
>
> "2. *Expresses the hope* for an accelerated return of displaced persons through the mechanism agreed upon by the parties in article XII of the Declaration of Principles on Interim Self-Government Arrangements;
>
> "3. *Endorses*, in the meanwhile, the efforts of the Commissioner-General of the United Nations Relief and Works Agency for Palestine Refugees in the Near East to continue to provide humanitarian assistance, as far as practicable, on an emergency basis, and as a temporary measure, to persons in the area who are currently displaced and in serious need of continued assistance as a result of the June 1967 and subsequent hostilities;
>
> "4. *Strongly appeals* to all Governments and to organizations and individuals to contribute generously to the Agency and to the other intergovernmental and non-governmental organizations concerned for the above purposes;
>
> "5. *Requests* the Secretary-General, after consulting with the Commissioner-General, to report to the General Assembly before its fifty-second session on the progress made with regard to the implementation of the present resolution."

2. On 7 May 1997, the Secretary-General addressed a note verbale to the Permanent Representative of Israel to the United Nations, in which he drew attention to his reporting responsibility under the resolution and requested the Permanent Representative to inform him of any action his Government had taken or envisaged taking in implementation of the relevant provisions of the resolution.

3. In a note verbale dated 28 July 1997, the Permanent Representative of Israel replied as follows:

> "Israel's position on these resolutions has been set forth in successive annual replies submitted to the Secretary-General in recent years, the latest of which

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being Israel's note verbal dated 3 May 1993. Israel regrets the fact that the resolutions regarding the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) remain rife with political issues irrelevant to the work for which UNRWA is responsible, and thus remain detached from the new reality in the area. Accordingly, Israel abstained on resolution 51/127 and voted against resolutions 51/124, 51/126, 51/128, 51/129 and 51/130.

"The agreements between Israel and Palestinians mark significant progress in the framework of the peace process. Israel believes that this process is the only way to achieve historic reconciliation and lasting peace between the two sides. However, for this process to succeed, it is imperative that both sides abide by their commitments made under the agreements signed by them. Israel calls upon the Palestinian side to live up to its commitments and resume its participation in the negotiations on all outstanding interim matters and on permanent status issues.

"Israel believes that UNRWA can play an important role in promoting the social and economic advancement foreseen in the agreements between Israel and the Palestinians, within the limits of its humanitarian mandate, and accordingly looks forward to continuing the cooperation and good working relationship with UNRWA.

"In the light of the above, Israel considers it essential that the General Assembly consolidate the resolutions regarding UNRWA into one resolution directly related to the Agency's humanitarian tasks. This would also be compatible with the necessity to rationalize the work of the General Assembly."

4. In connection with paragraph 2 of General Assembly resolution 51/126, the Secretary-General has obtained from the Commissioner-General of UNRWA the information available to him on the return of refugees registered with the Agency. As indicated in previous reports on the subject, the Agency is not involved in any arrangements for the return of refugees nor is it involved in any arrangements for the return of displaced persons who are not registered as refugees. Its information is based on requests by returning registered refugees for transfer of their entitlements for services to the areas to which they have returned and subsequent correction of records. The Agency would not necessarily be aware of the return of any registered refugees who did not request the provision of services. So far as is known to the Agency, between 1 July 1996 and 30 June 1997, 841 refugees registered with UNRWA returned to the West Bank and 352 to the Gaza Strip. It should be noted that some of these may not themselves have been displaced in 1967, but may be members of the family of a displaced registered refugee whom they accompanied on his return or joined thereafter. Thus, taking into account the estimate given in paragraph 4 of the report of the Secretary-General dated 17 September 1996 (A/51/369), the number of displaced registered refugees who are known by the Agency to have returned to the occupied territories since June 1967 is about 16,400. The Agency is unable to estimate the total number of displaced inhabitants who have returned. It keeps records only of registered refugees and, as pointed out above, even those records, particularly with respect to location of registered refugees, may be incomplete.

5. In connection with paragraph 3 of General Assembly resolution 51/126, the Secretary-General refers to the report of the Commissioner-General of UNRWA for the period 1 July 1996 to 30 June 1997 (A/52/13) and to the previous reports of the Commissioner-General for accounts of the continuous and ongoing assistance provided by UNRWA to persons displaced and in need of continued assistance.

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SUPPORT BY THE UNITED NATIONS SYSTEM OF THE EFFORTS OF GOVERNMENTS TO PROMOTE AND CONSOLIDATE NEW OR RESTORED DEMOCRACIES

OCEANS AND THE LAW OF THE SEA

SUSTAINABLE DEVELOPMENT AND INTERNATIONAL ECONOMIC COOPERATION

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

OPERATIONAL ACTIVITIES FOR DEVELOPMENT

Letter dated 1 October 1997 from the Permanent Representative of Kazakhstan to the United Nations addressed to the Secretary-General

I have the honour to transmit to you the text of a letter dated 25 September 1997 from the Minister for Foreign Affairs of Kazakhstan making reference to the letter of 3 September 1997 from the Chargé d'affaires a.i. of the Permanent Mission of the Islamic Republic of Iran to the United Nations (A/52/324) and explaining the position of Kazakhstan on the legal status of the Caspian Sea (see annex).

I should be grateful if you would have the text of this letter and its annex circulated as a document of the General Assembly under agenda items 38, 39, 97, 98 and 99.

(Signed) Akhmaral Kh. ARYSTANBEKOVA
Ambassador
Permanent Representative of Kazakhstan
to the United Nations

ANNEX

Letter dated 25 September 1997 from the Minister for Foreign Affairs of the Republic of Kazakhstan addressed to the Secretary-General

As you are aware, on 8 September 1997 a statement by the Islamic Republic of Iran, setting out the Islamic Republic's position on the status of the Caspian Sea, was circulated as an official document of the United Nations (A/52/324).

In this connection I should like to draw your attention to the following:

Paragraph 1 of the joint statement on issues relating to the Caspian Sea, signed by the Presidents of Kazakhstan and Turkmenistan on 27 February 1997, reads as follows:

> "The parties consider that the elaboration and conclusion of a convention on the legal status of the Caspian Sea is an urgent priority task. Until the Caspian States reach an agreement on the status of the Caspian Sea, the parties will adhere to the delimitation of administrative and territorial borders along a line running through the middle of the Sea."

This means that any use of the Caspian Sea will take place within the demarcation zones established during the existence of the former USSR when, in 1970, the Soviet part of the Caspian Sea was divided into sectors by the Union Ministry of the Petroleum Industry between Kazakhstan, Azerbaijan, the Russian Soviet Federative Socialist Republic and Turkmenistan using the median-line method adopted in international practice.

As you know, following the collapse of the USSR the former administrative and territorial borders that used to divide the Union Republics were reciprocally recognized as the State borders between the newly independent States.

Kazakhstan is making considerable efforts to ensure the prompt settlement of the legal status of the Caspian Sea and the conclusion of a convention based on consensus among the Caspian States.

Allow me to take this opportunity to draw your attention to a statement of the official position of Kazakhstan on establishing the legal status of the Caspian Sea. I should be grateful if you would have the text of this letter and its annex circulated as a document of the General Assembly.

(Signed) Kasymjomart TOKAEV

APPENDIX

Position of Kazakhstan on the legal status of the Caspian Sea

The current status of the Caspian Sea was established (not comprehensively) by the Treaty between the Russian Soviet Federative Socialist Republic and Iran (Persia) of 26 February 1921 and the Treaty between the Union of Soviet Socialist Republics and Iran of 25 March 1940, under which the Caspian Sea was divided between the USSR and Iran along the Astara-Gasan-Kuli line. These treaties are not in keeping with current state of affairs and cannot serve as legal instruments governing relations on a mutually advantageous basis and in a comprehensive manner among the States that border the Caspian Sea. Therefore, it is doubtful that any reference to these treaties can be considered to be sufficiently valid for the following reasons:

(a) The Parties to the aforementioned treaties were the Russian Soviet Federative Socialist Republic and the USSR, which no longer exist as subjects of international law. Therefore, the legal status of the Caspian Sea must be established and consolidated in a new treaty among the Caspian Sea States;

(b) The aforementioned treaties contained no reference to the borders between the former Union Republics bordering the Caspian Sea since, under Soviet law, questions pertaining to the border regime fell exclusively under federal jurisdiction.

Consequently, there were no borders between the Union Republics on the Caspian Sea, since the part of the Sea belonging to the former USSR was federal, and the Republics, which included the Russian Soviet Federative Socialist Republic, had no competence to consider questions relating to the delimitation of the Caspian Sea;

(c) The aforementioned treaties govern only questions relating to merchant shipping and fishing; they do not establish the legal status of the Caspian as a whole, which includes questions of the use of the continental shelf and exclusive economic zone, because the legal definition of the term "continental shelf" first appeared in the Geneva Convention on the Continental Shelf of 1958, and the legal definition of the term "exclusive economic zone" first appeared in the United Nations Convention on the Law of the Sea of 1982.

Kazakhstan's position is that individual provisions of the United Nations Convention on the Law of the Sea of 1982 should be extended to the Caspian Sea and applied taking into account the specific features of the Caspian.

We propose that the seabed and its resources be delimited among all Caspian States along a median line, as is usual in international practice, and in accordance with existing international methods. Each Caspian State must independently carry out the exploration and exploitation of mineral resources in its economic zone.

The oil companies of Caspian States can participate in the development of the mineral resources in the exclusive economic zone of another State on common

terms. This situation should not affect existing consortiums. The exploitation of deposits situated within the economic zones of two or more Caspian States should be the subject of agreements on the division of the output among the relevant States.

In the areas of navigation, fishing and environmental cooperation, the broadest compromises are possible.

The territorial waters and fishing zones under the national jurisdiction of each Caspian State should be of the agreed width. The remaining part of the Sea and its surface should be open to free navigation of ships of the littoral States. The airspace above the Sea should also be open to aircraft flying along agreed routes. Fishing and the use of other biological resources should be carried out in the respective fishing zones and also by setting quotas and issuing licences for fishing activities.

Landlocked Caspian States should be entitled to use Russian waterways on the basis of separate agreements with the Russian Federation in order to have an outlet to other seas and oceans.

Kazakhstan's draft convention on the legal status of the Caspian Sea draws not only on international norms and experience in exploiting mineral resources situated on the seabed of bordering reservoirs but also on the activities of the USSR and Iran in developing the resources of the Caspian seabed.

We are deeply convinced that such an approach will increase the responsibility of each littoral State for the consequences of activities in its own sector; make possible the effective legal regulation of the use of marine resources on the basis of national legislation; make it easier to attract foreign investment to the region, which in turn will contribute to the region's economic growth; and minimize the likelihood of disputes among States concerning specific deposits in the Caspian Sea.

Kazakhstan is prepared to cooperate with the other Caspian States in developing the resources of its sector. The forms of participation can be extremely diverse.

Kazakhstan is making considerable efforts to ensure the prompt settlement of the legal status of the Caspian Sea and the conclusion of a convention based on consensus among the Caspian States.

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Sustainable development and international economic cooperation: renewal of the dialogue on strengthening international economic cooperation for development through partnership

Report of the Secretary-General

I. Introduction

1. The present report is submitted in response to General Assembly resolution 51/174 of 16 December 1996, by which the Assembly requested the Secretary-General to submit to it, at its fifty-second session, a report on the implementation of the resolution, including further recommendations for enhancing the dialogue and an assessment of the ongoing efforts for its strengthening, such as the outcome of the discussions in the Ad Hoc Open-ended Working Group of the General Assembly on an Agenda for Development, possible future themes for dialogue, and proposals to convene special sessions of the Assembly on major issues relevant to the dialogue on international economic cooperation for development, including those identified in the Agenda for Development.

2. By the same resolution, the Assembly agreed to defer the holding of the high-level dialogue for a period of two days until its fifty-second session — the date, modalities and focus of the discussion to be decided by the President of the General Assembly through consultations with Member States, taking into account the progress and results achieved in the work of the Ad Hoc Open-ended Working Group on the theme of the social and economic impact of globalization and interdependence and their policy implications.

Assessment of ongoing efforts

3. Since the submission of previous reports by the Secretary-General (A/49/542, A/50/480 and A/51/485), the need to promote a dialogue to strengthen international economic cooperation has been reiterated in various intergovernmental bodies, including the Ad Hoc Open-ended Working Group of the General Assembly on an Agenda for Development which concluded its work with the adoption by the Assembly of the Agenda for Development on 20 June 1997 (resolution 51/240).

4. Building on the outcome of recent United Nations conferences and other relevant agreements, the Agenda for Development is aimed at invigorating a renewed and strengthened partnership for development, based on the imperatives of mutual benefits and genuine interdependence. It testifies to the renewed commitments of all countries to mobilize national and international efforts in pursuit of sustainable development and to revitalize and strengthen international cooperation for development.[1]

5. The Agenda for Development notes that globalization and interdependence are deepening the need and creating greater opportunities for international cooperation. The problems and questions which globalization and interdependence bring in their wake, show that there clearly

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exists a shared, common interest among all countries in solving and answering them. International development cooperation, not only founded in solidarity, but also based on mutual interest and partnership, forms an essential part of this effort. The Agenda for Development manifests the commitment of the international community to grasp the opportunity which has arisen with the waning of ideological confrontations, the rise in globalization, and the deepening of interdependence among nations, for constructive dialogue among all countries, in particular among the developed and developing countries, and political mobilization for the promotion of international cooperation for development based on genuine partnership and mutuality of interests and benefits.[2]

6. The Agenda for Development notes that an encouraging development in recent years has been the almost universal pursuit of increased economic openness and integration, which has contributed to a growing economic and social interdependence among countries, and that a primary objective of its implementation should be to contribute in such a way that the benefits stemming from future growth and development are distributed equitably among all countries and peoples.[3] The Agenda also notes that achieving and maintaining an international environment favourable to all countries is in the interest of all countries.[4] In this regard, the Economic and Social Council, at its 1997 high-level segment addressed the theme "Fostering an enabling environment for development: financial flows, including capital flows, investment and trade". It underscored the need for strengthened international cooperation to enhance the benefits and mitigate the risks associated with globalization.

7. Finally, the Agenda for Development recognizes the renewal of the dialogue on strengthening international cooperation through partnership as an important mechanism through which the intergovernmental follow-up and assessment of the Agenda and its implementation would be conducted, and that such dialogue should also be used as an opportunity to discuss new and emerging issues concerning international cooperation for development.[5]

II. Possible future themes for dialogue

8. The Assembly, in its resolution 50/122 of 20 December 1995, reaffirmed that such a dialogue should be conducted in response to the imperatives of mutual interests and benefits, genuine interdependence, shared responsibility and the partnership for achieving sustained economic growth and sustainable development as well as improving the international economic environment that is conducive to such development.

9. The Secretary-General had, in his previous report (A/50/480), suggested that themes be selected in the light of the principal objectives of the dialogue; that is, to promote broader and deeper understanding of issues of a global or transboundary nature that cut across individual, regional or group interests. The setting, the objectives and the policy framework of the Agenda for Development provide the overall context within which the themes for the dialogue could be chosen. The specific themes to be selected should, however, be such as to engage the attention of policy makers at a high level, generate interest among other actors in development and result in stimulating and productive discussions. It would also be preferable to select themes that are at the cutting-edge of international economic relations for the dialogue to serve as a means of expanding the frontiers of international cooperation.

10. A number of possible themes were recommended in the above-mentioned report to indicate the kind of topics that could be usefully discussed. These included: globalization and the rules of game; competition; regional integration and the global economy; new information technologies and the global economy; international migration; prevention and management of emergencies and post-conflict peace-building; and crime, drugs, violence and global stability. By its resolution 50/122, the Assembly decided that the theme for the first high-level dialogue would be the social and economic impact of globalization and interdependence and their policy implications. Building on the previous proposals and taking into account subsequent developments, possible themes are suggested below.

A. Development finance

11. The Agenda for Development has called for a strong political commitment by the international community to strengthen international cooperation for development and noted that the mobilization of domestic and international financial resources for development from all sources was an essential component for the comprehensive and effective implementation of the Agenda.[6] In addition, it called for consideration to be given to modalities for conducting an intergovernmental dialogue on the financing of development, taking into account the recommendation by the Secretary-General.[7] Furthermore, the Secretary-General, in his report entitled "Renewing the United Nations: a programme for reform", proposes to focus the debate in the General Assembly by means of a special high-level one-week segment, the first of which could be devoted to the issue of

international financing for development (A/51/950, para. 41).

12. While private capital flows have increased significantly, official development assistance (ODA), which remains an essential source of external funding, continues to decline. Reaffirmation of commitments to fulfil as soon as possible the agreed United Nations target of 0.7 per cent of gross national product (GNP) for overall ODA has been repeated in various forums. Also, the implementation of conference goals requires enormous financial resources, including external assistance. The dialogue may provide an opportunity to identify mutual interests and to discuss possible solutions at a high political level.

13. The dialogue could build on the work of, *inter alia*, the Committee for Development Planning, which in 1997 examined the development policy challenges arising from the globalization of finance and investment.[8] Recognizing that financial globalization offered new opportunities, the Committee also noted that it presented risks of financial instability, and that only a small number of developing countries currently had the human resources and institutional capacity to take effective advantage of the new opportunities. The Committee concluded that most developing countries would need continued and expanded international financial resources to meet the needs for investment capital, foreign exchange and human development priorities over at least 10 years to enable them to benefit from globalization and generate sustained growth.

B. Strengthening the means for development cooperation, including South-South cooperation

14. The Agenda for Development recognized the importance of various forms of development cooperation, such as South-South cooperation, regional economic integration and cooperation and the increasing role of civil society. The Agenda for Development noted South-South cooperation as an integral and dynamic part of international development cooperation and mentioned that the concept of triangular cooperation, which involves, *inter alia*, technical, financial and other support by developed countries and international organizations for South-South cooperation, could make a significant contribution to the promotion of cooperation among developing countries. The Agenda for Development also noted that regional economic integration and cooperation was increasingly recognized as a means towards expanding trade and investment opportunities, and for promoting economic growth and other forms of cooperation between countries of various regions.[9]

15. The dialogue should provide an opportunity to review the effectiveness of various forms of development cooperation and explore ways to ensure complementarity and create synergy between bilateral and multilateral cooperation, regional and interregional cooperation, the role of State and non-State actors and any other forms of cooperation, including South-South cooperation.

C. Information technologies and development

16. The Agenda for Development noted that the process of market-driven globalization was an increasingly important change affecting all countries, and that one of the driving forces was the rapid progress in information exchange and telecommunications.[10] The Secretary-General mentioned in his previous report (A/50/480) the accelerated pace of technological advances in the information and communication fields and suggested the need to address issues regarding unequal access to such technologies and the threat of marginalization in the global economy. The convening at Toronto, Canada, from 22 to 25 June 1997, of the World Bank Conference on Knowledge for Development in the Information Age, which was co-hosted by the Government of Canada, reflected the importance of and the interest in this theme.

17. It would be timely to assess the impact of information technology on human development and consider how to effectively incorporate information technology into the development process. Access to communications is essential for countries to participate in global economic activities. By facilitating access to knowledge, information technology can be used to stimulate development and empower the poor. The focus should not only be on new technologies but also on how to maximize the use of existing ones. The dialogue could explore how to structure effective partnerships based on shared mutual interest, discuss policy frameworks to support information technology and address related issues, such as education and training, infrastructure and capacity-building, and the protection of indigenous knowledge.

18. The dialogue could build on the work of the High-Level Advisory Board on Sustainable Development, which in 1996 considered how new information technologies that were broadly accessible could contribute to sustainable development by promoting economic growth, improving access to information and promoting civil society.[11] The new

technologies, and related institutional changes such as privatization, offer opportunities to extend services to previously unserved communities and to promote broader participation in development, but may also have economic, social and cultural risks.

D. International migration and development

19. The Agenda for Development mentioned the vital role of the international community in attaining the objectives of the Programme of Action of the International Conference on Population and Development[12] regarding international migration and development, and suggested that the possibility of convening an international conference on migration and development could be considered.[13] In pursuance of General Assembly resolution 50/123 of 20 December 1995, the item entitled "International migration and development, including the convening of a United Nations conference on international migration and development" will be considered by the Assembly at its current session. International migration and development was the central theme of the thirtieth session of the Commission on Population and Development in 1997.[14] Furthermore, at the 1997 substantive session of the Economic and Social Council, unemployment and labour migration was proposed as a possible theme for the Council's high-level segment in 1998.

20. As underlined in the Programme of Action, international economic imbalances, poverty and environmental degradation, combined with the absence of peace and security, violations of human rights and the varying degrees of development of judicial and democratic institutions are all factors in the movement of people. The flow of people between and within countries affects the development process in both countries of origin and receiving States. There are both benefits as well as costs to international migration. Among the benefits of international migration are, for example, the provision of technical expertise lacking for receiving countries and the important remittances for sending countries. Development cooperation could play a role in dealing with the fundamental causes of migration and in developing a policy framework to ameliorate its negative effects and support its positive effects.

21. The dialogue could build on the work of the Committee for Development Planning which, in its work programme for 1997-1998, is considering the question of international migration and employment. The Committee will be examining trends and causal factors in international migration, its relation to globalization, the implications of labour migration for sending and receiving countries, and policy options for those countries.

22. The fifty-fourth session of the General Assembly in 1999 would be a particularly opportune time to discuss international migration and development, since it is also the year for the quinquennial review and appraisal of the implementation of the Programme of Action of the International Conference on Population and Development.

E. Prevention and management of emergencies and post-conflict peace-building

23. Prevention, preparedness, emergency response, economic recovery and rehabilitation, as the Agenda for Development noted, are all part of a comprehensive response to reduce developing country vulnerability to emergencies; thus far, however, the international community has mostly only been able to react to emergencies through the provision of humanitarian assistance which can only alleviate human suffering in a short-term perspective.[14] As suggested in the previous report of the Secretary-General (A/50/480), it would be in the interest of the international community to prevent emergencies, both natural and man-made, address the immediate and emergency needs, and assist the affected countries in returning to a viable and durable path of development. To this end, close cooperation and coordination by the international community would be essential. The United Nations provides an appropriate forum to discuss this issue since it has the unique mandate to address issues of peace and development in an integrated manner, as noted in the Agenda for Development which also states that the United Nations has a vital role to play in mobilizing the international community to respond in a comprehensive and coordinated way to rehabilitation and reconstruction and for longer-term development needs in connection with humanitarian emergency situations.[15]

F. Uncivil society

24. In the previous report of the Secretary-General, the theme of "crime, drugs, violence and global stability" was proposed. Subsequently, the Agenda for Development underlined the need to address the problems of crime, violence and abuse of and trafficking in drugs.[16] Furthermore, it should be noted that, in pursuance of section IV of its resolution 51/64 of 12 December 1996, the General

Assembly will convene a special session in 1998 in order to consider the fight against the illicit production, sale, demand, traffic and distribution of narcotic drugs and psychotropic substances and related activities, and to promote strategies, methods, practical activities and specific measures to strengthen international cooperation in addressing the problem of illicit drugs. In addition, the Secretary-General in his report entitled "Renewing the United Nations: a programme for reform" (A/51/950), noted the ominous growth in the activities and influence of terrorists, drug traffickers and those engaged in organizing prostitution and trafficking in women and children — what might be termed the "uncivil society" — and called for new multilateral approaches and new partnerships with non-State actors to contain and reverse those trends. The trends have tended to undermine institutions and destabilize government authority. Consequently, Governments need to develop, through dialogue and cooperation, a strong global response to the activities and influence of an uncivil society.

III. Modalities

25. Taking into account that the Assembly decided to hold a two-day high-level dialogue at its fifty-second session on the theme of the social and economic impact of globalization and interdependence and their policy implications, the following suggestions which build on those made in previous reports on the modalities of the dialogue may be considered:

(a) The issues or themes to be chosen should engage the interest of all groups, be clearly defined, and the interlinkage among them should be taken into account in structuring the dialogue. A gender perspective should be applied to the chosen theme, as recommended in the Platform for Action adopted by the Fourth World Conference on Women[17] and reiterated by the General Assembly in resolution 50/203 of 22 December 1995, on the follow-up to the Fourth World Conference and by the Economic and Social Council in its agreed conclusions on mainstreaming the gender perspective into all policies and programmes in the United Nations system;[18]

(b) The theme to be selected for the dialogue should be chosen in a timely manner, preferably at least one year or more in advance in order to allow for adequate preparations. It should be recalled that the General Assembly agreed that the date, modalities and focus of the discussion would be decided by the President of the General Assembly through consultations with Member States, taking into account the progress and results achieved in the Ad Hoc Open-ended Working Group. Since the Agenda for Development was adopted by the General Assembly on 20 June 1997, it is proposed that a theme be chosen in 1997 for the fifty-third session of the General Assembly;

(c) As regards special sessions and summit-level meetings, the Assembly will convene in June 1998 in special session to consider the fight against the illicit production, sale, demand, traffic and distribution of narcotic drugs and psychotropic substances and related activities. The Assembly also decided, by resolution 50/161 of 22 December 1995, to convene in special session in 2000 for an overall review and appraisal of the implementation of the outcome of the World Summit for Social Development;[19]

(d) The nature of the outcome of the high-level dialogue should be seen as related to the complexity and maturity of the issues discussed and the outcome should provide for appropriate follow-up by the United Nations, its related institutions and other relevant regional and interregional organizations, as well as other development actors. The nature of the theme discussed should determine the nature of the outcome which should be kept flexible, ranging from a presidential summary or a declaration or statement to agreed conclusions or decisions;

(e) The principle of subsidiarity should be applied in order to ensure that policies are debated at the closest possible level to where problems arise. International and regional organizations should address those issues that must be resolved at the global and regional levels; Governments should address national concerns; and community organizations should deal with intra-community problems;

(f) The preparation for the discussions should not only involve the United Nations and the concerned organizations of the system but actively engage other actors in development and the academic and scientific community. The process of dialogue could involve meetings organized under the auspices of other regional and interregional organizations, the convening of forums by the non-governmental organization community, the organization of hearings, meetings of parliamentarians and the commissioning of studies and expert groups by universities and other academic and public purpose organizations. A public information programme to sensitize and involve major groups in the dialogue should also be prepared and implemented;

(g) Given the nature of the preparatory and related processes and modalities outlined above and the time required to initiate and organize them, as well as the suggestion made in subparagraph (b) above to combine the Secretary-General's proposal for a one-week high-level segment of the General Assembly and the high-level

dialogue, it is recommended that the first such event should be held no earlier than the autumn (northern hemisphere) of 1998.

Notes

[1] See A/AC.250/1 (Part I), annex, para. 2.

[2] Ibid., para. 12

[3] See A/AC.250/1 (Part II), annex, para. 47.

[4] Ibid., para. 48.

[5] See A/AC.250/1 (Part III), annex, para. 283.

[6] Ibid., para. 286.

[7] Ibid., para. 287.

[8] See *Official Records of the Economic and Social Council, 1997, Supplement No. 15* (E/1997/35).

[9] A/AC.250/1 (Part II), annex, paras. 76, 78 and 79.

[10] A/AC.250/1 (Part I), annex, para. 6.

[11] See E/CN.17/1996/31.

[12] *Report of the International Conference on Population and Development, Cairo, 5-13 September 1994* (United Nations publication, Sales No. E.95.XIII.18), chap. I, resolution 1, annex.

[13] A/AC.250/1 (Part II), annex, paras. 139 and 140.

[14] Ibid., para. 160.

[15] A/AC.250/1 (Part III), annex, para. 236.

[16] A/AC.250/1 (Part II), annex, para. 108.

[17] *Report of the Fourth World Conference on Women, Beijing, 4-15 September 1995* (United Nations publication, Sales No. E.96.IV.13), chap. I.

[18] *Official Records of the General Assembly, Fifty-second Session, Supplement No. 3* (A/52/3/Rev.1), chap. IV.A, agreed conclusions 1997/2.

[19] *Report of the World Summit for Social Development, Copenhagen, 6-12 March 1995* (United Nations publication, Sales No. E.96.IV.8), chap. I.

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Report of the Secretary-General on the activities of the Office of Internal Oversight Services

Note by the Secretary-General

1. In conformity with paragraph 5 (e) (ii) of General Assembly resolution 48/218 B of 29 July 1994, the Secretary-General transmits herewith to the Assembly as submitted the third annual report of the Office of Internal Oversight Services, covering activities for the period from 1 July 1996 to 30 June 1997 (see annex).

2. Reports of the Office of Internal Oversight Services have been an extremely valuable source of reference and guidance in the development of both the overall vision and specific measures connected with the reform effort. The Secretary-General concurs with the observations of the Under-Secretary-General for Internal Oversight Services in his preface that the Office is an important new element in the management culture of the Organization and that the creation of the Office by consensus resolution was itself a most meaningful and effective reform step by the General Assembly.

3. The ongoing efforts of the Office of Internal Oversight Services to cooperate and coordinate its programme with other oversight bodies, including the Board of External Auditors and the Joint Inspection Unit, will contribute to providing comprehensive oversight services for the Organization. The Secretary-General will continue to support the full and timely implementation by programme managers of recommendations made by the Office of Internal Oversight Services, which will continue to be a key element in the ongoing reform process.

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Annex

Report of the Office of Internal Oversight Services

for the period
from 1 July 1996 to
30 June 1997

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Preface

by the Under-Secretary-General for Internal Oversight Services

"Reform" has continued to be the number one preoccupation for the United Nations during the period covered by the present report, from 1 July 1996 to 30 June 1997. This word has not only dominated the political discussion inside and outside the world Organization and its media coverage, but also the work of the Secretariat and the thinking of United Nations staff.

How does the Office of Internal Oversight Services (OIOS) and the functions of internal oversight, fit into the *leitmotif* of United Nations reform?

My first answer to this question is that the creation of OIOS by a consensus resolution in the summer of 1994 was by itself a most meaningful and effective reform step taken by the General Assembly. Through that decision, the Assembly added an important new element to the management culture of the United Nations, an element that had been lacking for almost five decades, namely, independent internal oversight within the Organization.

Looking at the work of OIOS over the past two and a half years, and reviewing more specifically the activities and results of the past 12 months, I come to the conclusion that the impact of the new Office on the United Nations management culture is significant. It has heightened fiscal awareness among staff, contributed to streamlining many administrative and other United Nations activities, watched over the strict observance of rules and regulations, promoted economical solutions and battled irregularities and wrongdoing against the Organization. OIOS recommendations have aimed at structural change, better management, more accountability and increased transparency.

There have been, as this report will show, significant improvements in the quantity and quality of oversight activities in the past year. OIOS, through its work, has been an active agent and supporter of the ongoing United Nations reform, illustrating the observation by the Secretary-General, Mr. Kofi Annan, that "reform is a process, not an event".

I have been asked frequently to what extent OIOS interacts with the Executive Coordinator for United Nations Reform, Mr. Maurice Strong, and his collaborators. My answer to that question is that all the OIOS reports, all our pertinent findings and recommendations, have been made available to the reform group and were used in their deliberations. A number of consultations on specific projects have also taken place. However, I have not sought and have not been requested to become an active member of that group, in view of the independence of the OIOS function. I feel strongly that I should not be involved in any management decisions that I may be expected to scrutinize later on from an oversight point of view.

Beyond the issue of reform, OIOS reports have been received with increasing interest by the General Assembly, the media and the general public. The attention that the Assembly devotes to our findings and recommendations is very important and highly appreciated; it is the most weighty leverage this Office has and directly influences the rate of compliance, which, I am proud to state, continues to climb.

Media reporting, not surprisingly, concentrates on the more serious and controversial results of oversight work; more often than not, it focuses on our critical verdicts and does not convey the "balanced" picture United Nations insiders would like to see portrayed. I am confident, however, that the bottom-line message in most media reports — that internal oversight in the United Nations functions adequately — goes down well with consumers of international news and is beneficial to the Organization.

Managers, of course, would also like to have OIOS reports more "balanced" and I hear them comment frequently that the auditors, inspectors, evaluators and investigators only accentuate the negative and do not recognize management's achievements, successes and

innovations. Furthermore, when we ask our clients to comment on our analyses, they sometimes, in disagreeing with them, point to "factual errors" or "misinterpretations", when in reality they merely do not agree with our judgement. I believe this dialectic phenomenon is generic to all oversight work, not only in the United Nations. I need to become concerned only when, in the course of such an argument, the professionalism of my collaborators is challenged.

In order to address this issue, during this reporting period OIOS has refined its procedures for client consultation and introduced a quality control system for our work that includes peer review and other methods to ensure that our findings and recommendations are measured, realistic and thoroughly documented. In the context of assuring quality work by OIOS, I need also to comment on the resources for the Office. The 12 additional posts that OIOS was given by the General Assembly for the period 1996-1997 could only be filled with considerable time-lag, mainly because of the United Nations standard practice of budgeting new posts during the first biennium at 50 per cent, but also due to some other delaying factors. The full financial impact of this strengthening of OIOS only becomes evident in our budget proposal for 1998-1999, which shows an increase in our total submission of over $2.5 million, but in reality is very close to a maintenance budget.

In the past 12 months, I have again visited duty stations away from Headquarters in Geneva, Vienna and Nairobi, and also in Rome and Amman. What I observed in my first comprehensive report in 1995 (A/50/459, annex) is still valid today: each of these duty stations has its own character — which is understandable — but also seems to be very distant from New York in terms of work procedures, common goals or shared values — which is not so understandable and points to lingering problems of fragmentation and lack of communication. This is one area United Nations reform needs to address vigorously.

It is hoped that new initiatives aiming at decentralization and delegation of authority will take root soon and be embraced by staff, but this cannot be achieved just by issuing a few new administrative instructions; the decentralization of the functions of the Organization must be approached rationally and after ensuring that the factors that are essential for its success are set in place. This requires, first of all, a clearly articulated delegation of authority that also spells out the accountability of those to whom such authority has been delegated; thorough training and awareness-building must follow to educate staff about the essential aspects of empowerment. Lastly, this initiative requires the establishment of an effective monitoring mechanism to ensure that the authority delegated is being exercised prudently and judiciously. Internal oversight will focus on these issues in its work and thus contribute to the decentralization process inside the Organization.

Another area to be tackled is the huge mass of rules and regulations that has piled up over the decades and which now confuse rather than guide administrative activities, most particularly in the fields of financial and human resource management. Efforts to weed them out are under way, but the results have yet to be seen. On the other hand, the work of OIOS recently brought into the open significant lacunae in the legal instruments of the United Nations. To wit, one OIOS oversight case has highlighted the lack of a stringent, United Nations-applicable definition of "conflict of interest". We have presented our respective findings to the authors of the draft Code of Conduct, which has meanwhile been approved by the Secretary-General and would remedy this gap in the United Nations rules. Furthermore, OIOS has noted that the Staff Regulations and Rules and the administrative issuances are not as clear as they should be. Indeed, they have too often protected staff members from being held accountable for their actions and have done too little to protect the interests of the United Nations. Efforts made by our colleagues, notably in the Office of Legal Affairs, to streamline and strengthen the rules have the full support of OIOS while we shall continue to press for reform in this area.

The quality of horizontal communication within the Secretariat, one of my most serious concerns when I came on board in 1994, has significantly improved with Secretary-General Annan's early decision to convene a policy coordination group — a cabinet, as it were — and four executive committees, which meet regularly and ensure mutual information, coordination and cooperation and reduce "turf" thinking, duplication and overlap. The impact of this new leadership style clearly goes beyond the Secretariat, reaching out to separately administered funds and programmes and signalling a more modern, more effective and more efficient way to go about the business the world community has mandated to the United Nations.

With all of these developments, I do not suggest that this Organization is in perfect shape yet. What international or public administration could make such a claim?

But the process of change, of reform, of improvement of the United Nations is moving forward, not so much because of the financial constraints imposed on the Organization, but to a large extent in spite of them. It is high time that all Member States recognized and acknowledged this development.

(Signed) Karl Th. Paschke
Under-Secretary-General
for Internal Oversight
Services

New York, 31 July 1997

I

General management of the Office of Internal Oversight Services

A. Introduction

1. The General Assembly, in its resolution 48/218 B of 29 July 1994, established the Office of Internal Oversight Services (OIOS), with the intention of enhancing oversight functions within the United Nations, in view of the increased importance, cost and complexity of the Organization's activities, through intensified evaluation, audit, inspection, investigation and compliance monitoring. The Assembly stressed the proactive and advisory role of the new Office and the expectation that it would give assistance and provide methodological support to programme managers in the effective discharge of their responsibilities. On 24 August 1994, by its decision 48/323, the Assembly approved the nomination of Mr. Karl Th. Paschke as Under-Secretary-General for Internal Oversight Services. He assumed his duties on 15 November 1994.

2. Since the adoption of General Assembly resolution 48/218 B, United Nations issuances have further explained the role of OIOS. The provisions in the Secretary-General's Bulletin of 7 September 1994 (ST/SGB/273) describe in detail the mechanisms for implementing resolution 48/218 B and the scope of OIOS authority and responsibilities. The means for reporting matters to OIOS were described in an administrative issuance (ST/AI/397) also issued on 7 September 1994. Terms of reference were further described within the United Nations legal framework in the information circular of 25 April 1996 (ST/IC/1996/29). To make OIOS operations even more transparent, during the present reporting year OIOS has been developing new manuals. The internal audit manual of the Audit and Management Consulting Division has been substantially revised and is undergoing further review and revision. The Investigations Section manual was issued in the beginning of 1997 in English and French and is available on the Intranet.

B. Monitoring implementation of the recommendations of the Office of Internal Oversight Services

3. Paragraph 28 of document ST/SGB/273 set out eight categories of information, listed as subparagraphs (a) to (h), to be included in OIOS annual reports. In terms of those eight subparagraphs, the information in the present report is as follows:

(a) and (b) A description of significant problems, abuses and deficiencies: see paragraphs 9 to 167;

(c) Recommendations not approved by the Secretary-General: none;

(d) and (e) Recommendations in previous reports on which corrective action has not been completed or where management revised a decision from a previous period: see appendix I;

(f) and (g) Recommendations on which agreement could not be reached with management or where requested information or assistance was refused: there have been no such situations;

(h) The value of cost savings recommended and amounts recovered: see box after paragraph 18.

4. As required by its mandate, OIOS reports to the Secretary-General on the status of implementation of its recommendations on a semi-annual basis. Two such reports have been submitted to the Secretary-General since the last annual report, covering the periods from 1 July to 31 December 1996 and from 1 January to 30 June 1997. The strong emphasis by OIOS on the full implementation of its auditing, inspection, evaluation and investigation recommendations has caused some profound changes within the management culture of the United Nations. Programme managers are increasingly aware of the fact that mere acceptance of recommendations is no longer sufficient, as it often was before the creation of OIOS. To get "off the hook" of OIOS review, meticulous implementation of its

recommendations is required. A computerized monitoring system now tracks recommendations issued by OIOS. The sense of responsibility and accountability thus instilled can be expected to reduce further the occurrence of abuse and to enhance the efficiency and effectiveness of management.

5. For these two last semi-annual reports, OIOS has changed its monitoring policy and procedures with regard to the audit function. The new policy requires that every audit assignment result in a final audit communication, normally an audit report. These final audit reports provide senior management with an objective assessment of the audited area and inform them about major findings and recommendations. OIOS reporting on the status of implementation of audit recommendations has been, therefore, limited in the two most recent semi-annual reports to substantive recommendations issued in such final communications. As a consequence, since 1 July 1996, the number of new recommendations has fallen considerably, as shown in the second box after paragraph 18 below. The table of audit recommendations shows an average implementation rate of 70 per cent of all recommendations (4,042) from 1 October 1994 to 30 June 1996. Even under the more stringent procedures, the implementation rate was 61 per cent at the end of June 1997 for the 513 audit recommendations issued from 1 July 1996 to 31 December 1996.

6. For the reporting period, the Investigations Section has issued 121 recommendations. Of the 37 recommendations issued in the first half of the reporting period, the implementation rate is 81 per cent. Of those 84 recommendations issued in the second half of the reporting period, nearly a third concerned the International Criminal Tribunal for Rwanda (see paras. 72-79) and implementation of those recommendations is being assessed by a team of investigators and auditors; a report on this follow-up will be issued to the General Assembly. Another 20 recommendations issued in the second half emanate from four reports issued to programme managers on aviation contracts in peacekeeping missions and implementation is under way following extensive consultation. In general, receiving departments have accepted the Investigations Section's recommendations, but implementation is delayed for reasons that include the need to obtain additional legal advice on implementation methods and processes; administrative and/or disciplinary processes are begun that take protracted periods of time; financial implications are assessed; and all due process requirements are observed. In addition, recommendations that involve bringing criminal complaints require extensive consultations with other departments and with the concerned Member States.

7. A review of the new follow-up procedures, and their results, for the inspection function is provided in paragraphs 126 to 158 below. Procedures for monitoring the recommendations in reports on in-depth evaluations have been established for many years. The Committee for Programme and Coordination receives a triennial review three years after adopting its decisions on the evaluation. The triennial review assesses compliance with those recommendations the Committee endorsed and, if necessary, makes recommendations for further action. During the intervening three years, progress in compliance is monitored.

C. Enhancing internal oversight in the operational funds and programmes

8. When the General Assembly established OIOS, it requested the Secretary-General, in paragraph 11 of resolution 48/218 B, to submit a detailed report containing recommendations on the implementation of the resolution as it pertained to the internal oversight functions of the funds and programmes, including methods by which the Office could assist such funds and programmes in enhancing their internal oversight mechanisms. OIOS submitted a first draft of the report to the Secretary-General in January 1996. The Secretary-General fully endorsed the draft and addressed copies of it to the heads of the funds and programmes, requesting them to consult with their governing bodies, as envisaged in the resolution.

9. OIOS took an active part in this consultation process, whose outcome was, in general, positive. All executive heads of the agencies concerned approached the issue in a constructive spirit. The Standing Committee of the Office of the United Nations High Commissioner for Refugees (UNHCR) adopted a very constructive decision. No decision was taken in the Executive Boards of the United Nations Children's Fund (UNICEF) and the United Nations Development Programme (UNDP)/United Nations Population Fund (UNFPA), but the report met with broad approval from delegations. A number of governing bodies, however, simply took note of the report. Comments by Member States made during those consultations were taken into account by way of amendments to the first draft report. The second draft of the report was submitted to the Secretary-General on 13 January 1997. Subsequently, the Secretary-General released the final version (see A/51/801).

10. The report describes the internal oversight functions in each of the funds and programmes and makes specific recommendations to improve and strengthen oversight. In the Fifth Committee, the report has been thoroughly

discussed and two resolutions drafted, but no consensus has yet been reached. In the meantime, the administrators of the funds and programmes have already noted that their oversight functions are susceptible of improvement. Several have requested and received the assistance of OIOS in areas where they do not have the necessary expertise, notably in the audit and investigative function. A number of funds and programmes continued to secure their internal audit function through audit services provided by OIOS. One programme, UNDP, invited the Under-Secretary-General of OIOS to become a member of its Management Review and Oversight Committee.

11. During the reporting period, OIOS and UNHCR signed a memorandum of understanding on the provision of internal audit services to UNHCR. An average three-year audit cycle for UNHCR field operations is envisaged, which requires increased staffing resources for the OIOS/UNHCR Audit Section. The memorandum of understanding clarifies the role of UNHCR management and the UNHCR Oversight Committee in establishing the annual audit plan. In line with the decentralization of UNHCR, OIOS intends to outpost resident auditors to major UNHCR field operations.

12. A memorandum of understanding on the provision of internal audit services on a cost reimbursement basis was also concluded with the International Trade Centre UNCTAD/WTO. Based on similar agreements reached during the previous reporting period, OIOS has now also fully assumed the internal audit functions for the United Nations Joint Staff Pension Fund and the United Nations Drug Control Programme (see paras. 105 and 106 below).

D. Guidelines on programme monitoring and evaluation

13. OIOS is under an obligation to provide guidance to the heads of departments and offices in two basic areas of management, namely, keeping track of the progress of work through monitoring and attempting to assess the effectiveness of work through what is termed self-evaluation. As stated in the report of OIOS dated 28 March 1996 (A/51/88, annex), this guidance was delayed until enough inspections had been conducted to yield an empirical review of the strengths and weaknesses of existing departmental procedures. In general, OIOS studies have shown that adequate monitoring and evaluation practices do not exist in many departments and offices.

14. Draft guidelines have been circulated, setting out minimal elements of programme monitoring and evaluation that should be in place in each department and office. Extensive discussions of the draft guidelines have been held with senior managers in most departments at Headquarters and responses to them received from departments and offices overseas. Final guidelines will be issued in the fourth quarter of 1997.

15. Nothing in the guidelines is new. Their intent is to codify good practice. They also serve to make transparent managerial practices OIOS staff will review in future audit, monitoring, inspection and in-depth evaluation activities and the minimal standards they will keep in mind.

16. For programme performance monitoring, submissions to OIOS are now required at the end of the first year of the biennium, after 18 months and after the end of the biennium. The last of these three submissions is required to provide information for the programme performance report of the Secretary-General, a report mandated by the General Assembly. Under the new guidelines, the first two submissions will not be required for any department or office that has an adequate monitoring system of its own in place and allows OIOS read-only access to the system. The ultimate objective is to assist in the establishment of departmental monitoring systems that will permit OIOS to do away with elaborate and bureaucratic submissions.

17. Another feature of the guidelines that will be of general interest is the proposed establishment and monitoring of performance norms for support services, such as translation and reproduction of publications, the processing of entitlements, procurement actions, recruitment and so on.

E. Priorities

18. The first annual report of OIOS (A/50/459, annex) identified three priority areas for oversight: peacekeeping, humanitarian and related activities, and procurement. In last year's annual report (A/51/432, annex), the problem of establishing new bodies was also treated as a priority matter. That pattern of priorities remains unchanged in this year's annual report.

Cost savings and recoveries resulting from actions of the Office of Internal Oversight Services, 1 July 1996-30 June 1997

(Millions of United States dollars)

Nature of financial implication	*Amount identified and recommended*	*Savings and recoveries*
Recoveries	6.3	1.8
Prevention of overpayment	1.2	0.2
Expenditure reduction	3.0	—
Prevention of excessive or unjustified expenditure	7.4	5.1
Additional income	1.3	0.6
Budget reductions in 1996-1997 in conformity with OIOS recommendations	10.1	10.1
Total	**29.3**	**17.8**

Implementation rates for audit recommendations of the Office of Internal Oversight Services

Period covered	*Total number of recommendations*	*Implementation rate as at*				
		31 March 1995	*30 September 1995*	*31 December 1995*	*30 June 1996*	*30 June 1997*
		(Percentage)				
1 October 1994-31 March 1995	1 343	15	45	50	84	84
1 April-30 September 1995	1 057	—	31	37	58	67
1 October-31 December 1995	480	—	—	36	59	66
1 January-30 June 1996	1 162	—	—	—	41	67
Total or average	**4 042**	**15**	**38**	**41**	**61**	**71**

Period covered	*Total number of recommendations*[a]	*Implementation rate as at*	
		31 December 1996	*30 June 1997*
		(Percentage)	
1 July-31 December 1996	513	36	61
1 January-30 June 1997	298	—	48[b]
Total or average	**811**	**36**	**38**

[a] Reflects only those recommendations made in final communications, that is, reports or memos to heads of departments (see para. 5).

[b] Implementation rate based on 112 recommendations for which replies were received as at 30 June 1997.

II

Priority areas for oversight

A. Peacekeeping

1. Audit coverage of peacekeeping operations

19. In addition to conducting audits of various activities of the Department of Peacekeeping Operations at Headquarters, audits of the following missions were conducted in the field during the reporting period:

(a) United Nations Peace Forces (UNPF);

(b) United Nations Transitional Administration for Eastern Slavonia, Baranja and Western Sirmium (UNTAES);

(c) United Nations Mission in Bosnia and Herzegovina (UNMIBH);

(d) United Nations Preventive Deployment Force (UNPREDEP);

(e) United Nations Logistics Base;

(f) United Nations Peacekeeping Force in Cyprus (UNFICYP);

(g) United Nations Interim Force in Lebanon (UNIFIL);

(h) United Nations Truce Supervision Organization (UNTSO);

(i) United Nations Disengagement Observer Force (UNDOF);

(j) United Nations Observer Mission in Georgia (UNOMIG);

(k) United Nations Iraq-Kuwait Observation Mission (UNIKOM);

(l) United Nations Guards Contingent in Iraq/United Nations Administrative Unit-Baghdad (UNGCI/UNAUB);

(m) United Nations Military Observer Group in India and Pakistan (UNMOGIP);

(n) United Nations Mission for the Referendum in Western Sahara (MINURSO);

(o) United Nations Angola Verification Mission III (UNAVEM III);

(p) United Nations Assistance Mission for Rwanda (UNAMIR);

(q) United Nations Support Mission in Haiti (UNSMIH);

(r) United Nations Verification Mission in Guatemala (MINUGUA).

20. OIOS Resident Auditors in UNPF, UNTAES, UNAVEM III and UNSMIH also provided continuous audit coverage at those peacekeeping missions.

(a) UNPF

21. OIOS audits focused on the liquidation of UNPF and disposal of United Nations-owned assets having an original value of more than $430 million. Overall, the audits determined that the liquidation process was being accomplished in an organized manner and that a reasonable accounting had been made of the disposition of assets. By monitoring the progress of UNPF liquidation activities on an ongoing basis, the OIOS audit teams brought critical issues to management's attention for timely corrective action. For example, with the liquidation of UNPF in process, OIOS found that there was a need for UNPF to pursue collection action in a vigorous manner in order to clear large accounts receivable balances and recommended ways to help UNPF improve its collection efforts.

Overall, the audits determined that the UNPF liquidation process was being accomplished in an organized manner and that a reasonable accounting had been made of the disposition of assets.

22. OIOS auditors found that a huge backlog of approximately 11,000 board of inquiry cases was pending at the time of the mission's liquidation because the essential task of processing cases had been largely neglected during the early stages of the mission. OIOS recommended that management reassess the priorities assigned to the remaining case workload and ensure that board of inquiry cases in other missions were dealt with at an early stage. As a result of prompt corrective action by UNPF, all cases were completed by the end of February 1997. OIOS also determined that the two aircraft used to support the missions in the former Yugoslavia were underutilized and that the air transportation needs could be met at significantly lower cost with one aircraft. Similarly, the auditors questioned an option being considered for the commercial disposal of 140 armoured personnel carriers at a cost of nearly $1 million and a contract to dispose of live, unserviceable ammunition at a cost of approximately $90,000. Management achieved significant savings by utilizing a scrap contract to dispose of the personnel carriers and obtaining governmental assistance in disposing of the ammunition.

(b) UNTAES

23. Audits by the resident auditor and visiting audit teams concluded that UNTAES operations had been conducted in accordance with its mandate, but that available resources could have been used more efficiently and economically. OIOS observed that UNTAES budget submissions for rental of premises did not reflect the fact that nearly all facilities and sites were provided at no cost to the United Nations as a result of successful efforts by UNTAES to persuade the local authorities to provide premises free of charge. UNTAES agreed to adjust its budget request for the rental of premises and this figure was reduced by $4 million in the proposed programme budget for the biennium 1996-1997. Contracts for waste removal were awarded without competition and catering and cleaning performed by local staff could have been done more economically by means of service contracts. The mission placed excessive reliance on cash payments and did not seek approval from the Controller to administer funds entrusted to it by the Government of Croatia for payment of salaries and other expenditures to local authorities in the mission area. UNTAES has since renegotiated contracts and required vendors to accept payment by cheque or bank transfer. Irregularities were noted in the receipt and delivery of fuel and OIOS recommended strengthening of internal controls over fuel receipt and storage as well as increasing civilian control over fuel operations. Similarly, increased control needed to be exercised over food deliveries under the mission's ration supply contract. Moreover, the audits disclosed that the distribution of vehicles in the mission required adjustment to enable military observers to perform their tasks effectively. Management generally concurred with the auditors' findings and took appropriate action to implement their recommendations.

(c) United Nations Logistics Base at Brindisi

UNTAES operations were conducted in accordance with its mandate, but available resources could have been used more efficiently and economically.

24. The Organization has invested significant resources in establishing the United Nations Logistics Base at Brindisi, Italy. As discussed in a recent report to the General Assembly (A/51/803, annex), OIOS believes that the logistics base concept is viable if managed efficiently and effectively. However, OIOS audits disclosed that the Base had not fulfilled its approved functions of managing surplus assets and maintaining mission-ready start-up kits. Specifically, the Base did not perform a technical evaluation of equipment; had not yet established proper inventory procedures; start-up kits were not complete; and only limited services were provided to new and expanding missions. Much of the reserve equipment was in poor condition and the Base had done little to write off such items. These problems resulted primarily from an inadequate organizational structure as well as insufficient personnel and financial resources. OIOS cautioned against expanding the Base's functions without careful cost analysis and legislative approval. Key recommendations included intensifying efforts to complete start-up kits; expeditiously conducting technical reviews to determine equipment serviceability; and ensuring that only equipment expected to be used in the future be shipped to the Base.

(d) UNAVEM III

25. Audits by the resident auditor and a visiting audit team disclosed control weaknesses in the areas of procurement, contract administration and management of accommodation and communication facilities. There were serious breaches of financial regulations and rules as well as improprieties and irregularities in the procurement process resulting in significant losses to the Organization.

The audit found that the splitting of requisitions allowed bypassing of the normal procurement procedures and scrutiny by the committees on contracts. Goods were procured from a restricted group of middlemen at higher prices. Payments were requested and authorized without obtaining required receiving and inspection reports. Acceptance of delayed, defective and short supplies from a vendor resulted in excess payments of $288,000 and losses of $980,000. There were also serious irregularities noted in the contracting of an aircraft.

There were serious breaches of financial regulations and rules as well as improprieties and irregularities in the procurement process.

26. Internal control weaknesses resulted in extensive abuse of communication facilities and irregular payments to a vendor. The mission paid $667,000 for stevedoring charges in connection with the sea-lift of contingent-owned equipment, which should have been the responsibility of the vessel operators. Administrative lapses also led to irrecoverable losses of $241,000 for the rental of buses. An excessive obligation of $113,000 for hiring of accommodation facilities was averted upon the advice of the resident auditor. OIOS recommended that management revamp the Procurement Section; determine individual accountability for improprieties and losses; strengthen internal controls; and re-register vendors. OIOS was informed:

> "Management has complied with these recommendations. A number of boards of inquiry have been established to review the circumstances of the procurement irregularities and abuse of communications facilities, and the investigation and review of alleged misconduct continues to be undertaken in order fully to determine the accountability of individuals for the purpose of instituting disciplinary proceedings."

(e) UNAMIR

27. Control weaknesses adversely affected the liquidation of the Mission and resulted in losses to the Organization. Financial management weaknesses included delays in bank reconciliations and financial reporting and a lack of proper analysis and control over outstanding obligations and accounts receivable. There were also inadequacies in the management and control of non-expendable property. Unreliable inventory records affected the proposed distribution of UNAMIR assets. There were also inadequacies in the valuation of contingent-owned equipment for reimbursement purposes. Three contingents had departed from the Mission without completing in- or out-surveys and consequently had left no audit trail to verify their equipment holdings.

28. Better controls could have avoided excessive ordering of food rations and resulting losses of over $600,000. Significant cost savings could have been realized if daily ceiling rates based on troop contingents had been applied in the subsequent rations contract. The arrangements for freight management services were found to be unsatisfactory. Although management had initiated remedial actions recommended by OIOS, a subsequent review of the Mission's liquidation status revealed delays and other problems that needed to be addressed and monitored by the Department of Peacekeeping Operations.

(f) UNSMIH

29. The resident auditor provided audit coverage of personnel and financial management, procurement and property management and communications facilities. In the area of procurement, the resident auditor made several recommendations for improving the terms of contracts and their administration. An audit of communications disclosed that an UNSMIH telephone technician had provided unauthorized international access to some staff members and, in some cases, inappropriately reduced telephone charges. As a result of those findings, management decided not to renew the technician's contract, which expired in February 1997.

30. The resident auditor also addressed issues raised in connection with the Organization of American States (OAS) share of the common costs of the International Civilian Mission in Haiti. After an audit of those costs, OAS agreed to reimburse its share of the costs up to 31 December 1996. An audit was also made of direct expenditures from the trust fund to provide goods and services to the international police monitoring programme and other specifically designated purposes in Haiti, in connection with the transfer of the fund's administration to UNDP as at 1 April 1997. The audit provided assurances that the expenditures were being properly utilized and contributed to the attainment of the fund's objectives.

(g) MINUGUA

31. Internal control weaknesses resulted in uneconomical use of the Organization's resources and non-compliance with United Nations procurement rules. The audit noted that requisitions and purchase orders were sometimes issued on an *ex post facto* basis; furniture and communications equipment were purchased without competitive bidding; and mission subsistence allowance was improperly paid to staff during time spent outside the mission area and on completion of mission assignment. Monthly costs more than doubled in conjunction with the moving of MINUGUA headquarters to a new location and renovation work was carried out at a cost of more than $225,000. The Mission maintained that the increased rental costs and renovations were justified by the increase in staffing and inability to obtain additional space at the previous location. Management implemented corrective action in compliance with the auditors' recommendations and is in the process of relocating MINUGUA headquarters to a new facility to benefit from lower rental rates now available.

2. Management consulting services

32. During the reporting period, OIOS was requested to provide management consulting services in connection with three projects being undertaken by the Department of Peacekeeping Operations. Consulting services differ from audit assignments in that they are initiated solely at the request of the client and provide advice to management for decision-making. These assignments are described briefly below.

Material management project

33. In 1996, the Department of Peacekeeping Operations had initiated a project to review the management of non-expendable equipment inventories in use at peacekeeping missions around the world and in storage at the United Nations Logistics Base at Brindisi, Italy. The OIOS consulting team provided technical advice on the project approach, system design methodology and project management.

Task force on mission subsistence allowance

34. Consultancy services were provided to the joint task force formed by the Office of Human Resources Management and Department of Peacekeeping Operations to streamline and clarify mission subsistence allowance rules and establish a new system for it. The OIOS consulting team submitted written assessments of draft policies and procedures and suggested a number of changes to facilitate implementation of the new system. As a result of the task force's work, a new administrative instruction on mission subsistence allowance is being promulgated.

Global vehicle procurement project

35. The OIOS consulting team provided an independent assessment of the technical evaluation process used by the Department of Peacekeeping Operations to evaluate proposals received from vehicle manufacturers, suggesting ways to strengthen the evaluation process and to facilitate administration of the contract.

3. Other issues

New methodology for reimbursement of contingent-owned equipment

36. In 1996, the Department of Peacekeeping Operations began reimbursing troop-contributing nations for contingent-owned equipment expenses under a new "wet" and "dry" lease methodology authorized by the General Assembly in its resolution 50/222 of 11 April 1996. As a measure to enhance the transparency of the new process, OIOS auditors were invited to observe negotiation sessions with nations electing to be reimbursed under the new methodology for their participation in UNPF. During those negotiations, OIOS auditors sought clarification of reimbursement issues and decisions for the record. They also made recommendations to strengthen the United Nations negotiating position, which achieved cost savings of more than $1.1 million.

OIOS believes that further study is needed to evaluate the costs and benefits of the new reimbursement methodology for contingent-owned equipment.

37. Based upon the experiences gained from observing the initial negotiations, OIOS believes that further study is needed to evaluate the costs and benefits of the new reimbursement process and to assess the reasonableness of the approved "wet" and "dry" lease rates and self-sustainment allowances. OIOS consequently recommended that the Department of Peacekeeping Operations perform

parallel calculations of reimbursement under the old and new systems and propose any necessary adjustments to the lease and self-sustainment rates approved by the General Assembly. The Department is currently preparing a report to the Assembly that will include recommendations to improve the implementation of the new reimbursement system.

Action plan to improve controls in peacekeeping missions

38. As a measure to improve internal controls in peacekeeping missions, the Department of Peacekeeping Operations has developed an action plan to address generic control weaknesses identified from past internal and external audits. The action plan is aimed at tackling specific weaknesses within the broader context of introducing enhanced management controls, rather than adopting a piecemeal approach to the problems. The action plan includes actions initiated and taken to address weaknesses in cash management; finance, accounts and budgetary control; procurement; inventory management; air operations and vehicle management; and personnel management. OIOS commends the Department on this approach and believes that it will assist in the overall efforts to improve internal controls in the Organization.

UNFICYP

39. In July 1996, the Field Administration and Logistics Division received a report of an attempt to recruit the Force Catering Officer of UNFICYP into a scheme to defraud the United Nations. The Officer had recorded a meeting, which included a former Force Catering Officer, the contractor and the Chief Financial Officer of UNFICYP, during which the scheme's plans were described in detail. The Division forwarded the report to the Investigations Section. During the course of the investigation it was determined that the Chief Financial Officer was involved in an ongoing scheme to defraud the Organization by siphoning funds from the mission's account for fresh rations — that is, fresh fruit and vegetables provided to the peacekeeping troops. The investigation found that the Chief Financial Officer had covered up the losses in that account and had submitted documentation indicating that the account had a balance of nearly $100,000 when, in fact, it had a deficit of nearly $450,000. The Chief Financial Officer was charged and the case heard by the Joint Disciplinary Committee, which did not accept the taped evidence as definitive. The Secretary-General, upon review, dismissed the Chief Financial Officer. The UNFICYP Chief Administrative Officer, upon advice of legal counsel and the local committee on contracts, removed the fresh rations contractor as an approved vendor. A new vendor is now supplying the rations.

B. Humanitarian and related activities

1. Department of Humanitarian Affairs

40. The report[1] on the in-depth evaluation of the Department of Humanitarian Affairs reviewed the achievements and shortcomings of the Department in (a) the promotion of natural disaster reduction programmes and the mobilization of emergency relief when disasters occur; and (b) the strengthening of the coordinated response of the United Nations to humanitarian emergencies.

41. The general thrust of the report was that, for emergencies requiring a coordinated response, the Department should focus on the support of the Inter-Agency Standing Committee and on coordination of emergency assistance without becoming operational itself and that more attention should be given to natural disaster reduction programmes. Recommendations taking into account the results of the management audit referred to in paragraph 43 below were made on, *inter alia*:

(a) Special United Nations emergency rules and procedures;

(b) Department of Humanitarian Affairs support to in-country coordination of disaster reduction programmes;

(c) Department of Humanitarian Affairs follow-up to the International Decade for Natural Disaster Reduction;

(d) Department of Humanitarian Affairs support to the Inter-Agency Standing Committee; streamlining of field coordination;

(e) Early agreement on allocation of responsibilities; operational predictability in the response to emergencies;

(f) Appeals launched in advance of inter-agency consolidated appeals;

(g) Global monitoring of emergency assistance;

(h) Advocacy of humanitarian issues and concerns with the policy-making organs of the United Nations;

(i) Coordination with activities other than humanitarian assistance;

(j) Enhancing the capacity to provide early warning analyses to the Secretary-General and members of the Inter-Agency Standing Committee;

(k) Enhanced coordination with development programmes and agencies;

(l) Dissemination of lessons learned and best practices.

42. The Committee for Programme and Coordination discussed the report at its thirty-seventh session and expressed appreciation for its quality and comprehensive nature. Subject to the different views expressed by delegations during the discussion and to subsequent decisions of the Economic and Social Council and the General Assembly on the coordination of humanitarian assistance at their upcoming sessions, the Committee endorsed recommendations 1 to 13 and 14 (b) to 22 of the report. The Committee considered that the in-depth evaluation report and the conclusions and recommendations of the Committee on it should be transmitted to the Economic and Social Council for consideration at its regular session of 1997 session under the item entitled "Special economic, humanitarian and disaster relief assistance".[2]

43. In conjunction with the in-depth evaluation, OIOS also conducted a management audit of the coordination of humanitarian activities in the field. The audit, which included site visits to various locations in Angola and Sierra Leone, made a series of management and organizational recommendations.

2. Office of the United Nations High Commissioner for Refugees

44. During the reporting period, OIOS audits covered expenditures of more than $150 million in the following 14 country programmes: Bangladesh, Burkina Faso, Bosnia and Herzegovina, Central African Republic, Côte d'Ivoire, Croatia, Cyprus, Guinea, Italy, Philippines, Senegal, Sudan, United Republic of Tanzania and Yugoslavia. In addition, UNHCR headquarters support functions such as asset administration, education grants, outsourcing of cleaning and publication services and monitoring of local contracts committees were audited.

OIOS audits covered expenditures of more than $150 million in 14 UNHCR country programmes.

45. Because UNHCR spends about 50 per cent of its funds through implementing partners (i.e. Governments and local and international non-governmental organizations) the OIOS/UNHCR Audit Section devoted a good deal of effort to auditing such bodies. Those audits disclosed various financial control weaknesses and recurring problems, such as delayed or unreliable financial and narrative reporting, making it difficult for UNHCR to determine the extent to which funds were being used for the intended purposes. In some cases, implementing partners reported budgeted amounts instead of actual expenditures. Also, audit certificates for UNHCR projects were not always received from implementing partners and at one major programme where UNHCR engaged the services of commercial auditors to address the problem, more than 50 per cent of the audit opinions had to be qualified owing to inadequate financial reporting systems. Weak financial infrastructures in field programmes appeared to be a major cause of such problems and UNHCR will have to make additional investments in the area if the financial management of its implementing partners is to improve. Submission of audit certificates is mandatory for implementing partners, and UNHCR is consulting with OIOS and the Board of External Auditors on improved procedures.

At one major programme where UNHCR engaged the services of commercial auditors, more than 50 per cent of the audit opinions had to be qualified owing to the implementing partners' inadequate financial reporting systems.

46. OIOS audits also disclosed that UNHCR field offices sometimes did not aggressively try to collect unspent balances, which in some cases had been concealed by implementing partners. Also, in one case, a government implementing partner took no action to correct financial irregularities disclosed by an audit. In order to review the project's activities, OIOS auditors had to reconstruct accounts from bank records covering the period from 1992 to 1996 because project documentation was in such poor condition. The auditors discovered massive internal transfers between 10 bank accounts valued at $5.6 million out of the $15 million reported by the implementing partner. Although the accounts were supposed to be used solely for UNHCR project funds, the auditors identified almost $2 million in "funds" in excess of UNHCR remittances. Some of the transfers had been unjustified and

probably intended to move unutilized portions of UNHCR funds to unrelated activities. However, the auditors identified and recovered an unspent balance of $90,000. UNHCR was following up on the case with OIOS assistance.

47. Revolving funds are being used increasingly for commercial and other purposes as a means to promote self-sufficiency among refugee populations. However, little guidance was available and UNHCR offices and implementing partners had difficulty managing and reporting on revolving funds. Recording of loan collections was particularly weak. In one instance, UNHCR overstated its receivables by $1.4 million because loan payments had not been recorded. UNHCR is finalizing instructions on the management of revolving funds.

48. The auditors also identified other administrative weaknesses concerning such matters as procurement. The UNHCR headquarters Supply and Transport Section was not always consulted and, in some cases, purchases made in the field were more expensive than international procurement would have been. An implementing partner in one country purchased trucks at a cost of $42,000 per vehicle without first consulting the Supply and Transport Section, which indicated that the price per truck should not have exceeded $26,000. On being informed of this by OIOS, UNHCR recovered the overcharge of $90,000. An audit of the new $1 million asset management system, which was intended to improve UNHCR asset controls significantly, disclosed several implementation problems. OIOS found that the system was clogged with items of little value. Further, the new asset management policy delegated asset control and disposal authority to the field offices, which because of staffing and managerial problems often could not fully assume implementation responsibilities.

49. There were also personnel administration problems in the field. For example, several UNHCR field offices employed local staff, who were contracted and paid by implementing partners, which led to disparate treatment of such staff when compared with other categories of field office staff. UNHCR is reviewing the practice.

3. United Nations Relief and Works Agency for Palestine Refugees in the Near East

50. The OIOS Investigations Section received a report from the Commissioner-General of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) in September 1996 of a finding by UNRWA auditors that Agency funds were being siphoned off through the submission of false medical reimbursement claims on behalf of registered Palestine refugees. The investigation by OIOS determined that the fraud had been perpetrated by a former staff member of the UNRWA West Bank Field Office in East Jerusalem who had used false refugee registration numbers, with a mix of names from his extended family, to defraud the Agency of approximately $355,000 over the period from 1992 to 1995. The former staff member was able to use his knowledge of UNRWA internal procedures to forge medical documents, both medical reports and hospital invoices (in one case, from a hospital still under construction), so as to submit false claims for reimbursement of medical expenses incurred by supposedly eligible Palestine refugees. The investigation found 209 individual cases of fraud, including 191 cases that involved the use of his extended family.

The investigation by OIOS determined that the fraud had been perpetrated by a former staf member of the UNRWA West Bank Field Office in East Jerusalem who had used false refugee registration numbers, with a mix of names from his extended family, to defraud the Agency of approximately $355,000.

51. The Investigations Section also conducted a review of internal controls within UNRWA as a consequence of the criminal investigation and made several recommendations for the strengthening of those controls in order to limit further abuses of the system in the future. Another area requiring closer scrutiny within UNRWA is the management of allocated budgets and monitoring of expenditure versus allocation. Failings in that area contributed to the longevity of the fraud.

52. UNRWA management is taking corrective action on internal controls. The criminal case has been passed by UNRWA to both the Israeli and the Palestinian authorities for prosecution.

4. Centre for Human Rights

53. Tangible efforts have been made to address the core recommendations of the OIOS inspection of the Centre for Human Rights (see A/49/892). Those efforts gained momentum during the autumn of 1996 after a very slow start throughout 1995. Thus, a new organizational structure has been put in place and the corresponding skill profiles have been prepared. Redeployment of staff to meet the new requirements is almost complete and improvements have been introduced in the database system.

Tangible efforts have been made to address the core recommendations of the OIOS inspection of the Centre for Human Rights.

54. With respect to the core issue of enhancing the substantive and research capability of the Centre, it was noted that very little consideration had been given to building the necessary infrastructure of quality staff. Thus vacancies at the intermediate managerial level continued to be filled internally and the skill profile at that level remained uneven. Management attributed its inability to recruit fresh talents to the freeze on recruitment imposed in 1996. OIOS considers that particular effort should be made to fill future vacancies through external recruitment in order to obtain the expertise needed to enhance the analytical and research potential of the Centre. In that connection, it was noted that this aspect was being addressed through the staff redeployment exercise, which provides the management of the Centre with the opportunity to regularize most qualified temporary staff who have demonstrated their substantive and research ability.

In terms of oversight and administration, the situation remains disquieting.

55. In terms of oversight and administration, the situation remains disquieting. Over the past two years, OIOS has continuously stressed the urgency of establishing a system for monitoring the implementation of the work and assessing its results. The existence of such a system is not apparent as yet, nor are the plans for its establishment. Although the assignment of a P-5 post (Programme Management Officer) to the oversight work in the new structure constitutes a step in the right direction, its success will depend very much on the degree of commitment of management towards the broader issue of internal control and accountability. In that regard, it is essential that management enhance the staff's awareness of their respective accountability and embrace self-monitoring and self-evaluation as an integral part of managerial responsibilities.

56. As far as the administration of the Centre is concerned, while improvements have been made in the area of financial control, there do remain a number of weaknesses in personnel administration and in addressing the requirements of an increased workload arising from the Centre's involvement in field operations. While the problem could be solved in part through additional resources, it also requires on the part of administration a greater energy and responsiveness to the manifold personnel issues. An informative administration willing to listen and to conduct constructive dialogue with staff is essential at this point when, because of staff concern about their career prospects, a high degree of unrest is unavoidable.

5. United Nations Office of the Humanitarian Coordinator for Iraq

57. The United Nations Office of the Humanitarian Coordinator for Iraq was established to facilitate the implementation of Security Council resolution 986 (1995). That resolution gives the Council responsibility for four functions, namely: (a) the sale of Iraqi petroleum and petroleum products; (b) the purchase, confirmation of arrival in Iraq and distribution of humanitarian supplies; (c) reporting on the adequacy and equitable distribution of the humanitarian supplies; and (d) the establishment of an escrow account. In view of the extremely large revenue objectives (approximately $1 billion per quarter) and complexity of the Organization's responsibilities under the resolution, in May 1997, OIOS, at the request of the Humanitarian Coordinator, assigned a resident auditor to Iraq to help ensure that the mandated functions were being carried out by the Office efficiently and effectively.

C. Procurement

1. Procurement reform

58. Procurement continues to be a vital United Nations function, through which the Organization obtains goods and services valued at more than $500 million annually. In view

of its cost significance and inherent risks, including susceptibility to fraud and abuse, procurement continued to draw a good deal of OIOS attention. During the reporting period, OIOS conducted an audit to assess progress made in procurement reform by implementing the recommendations made by the High-level Group of Experts on Procurement in its report of December 1994. More specifically, the audit will confirm the current status of reform implementation; evaluate the quality of implementation; analyse the difficulties encountered by management in implementing reforms; and recommend improvements, where appropriate. The audit is focusing on procurement for peacekeeping and will address several specific areas, including management direction, competition, performance measurement, human resources, sources of supply and organization of the procurement function. OIOS intends to report the results to the General Assembly at its fifty-second session.

2. Outsourcing

59. At the request of the General Assembly, OIOS undertook a comprehensive review of outsourcing, covering operations at Headquarters, offices away from Headquarters and selected peacekeeping missions (A/51/804, annex). The review, which was based on direct audits of more than 25 contracts and services valued in excess of $100 million, showed that, if managed properly, outsourcing can be a viable means for achieving efficiency, effectiveness and cost reduction. In addition to providing expertise needed to supplement United Nations personnel, the study found that outsourcing can allow programme managers to concentrate on substantive activities and accomplish the Organization's core functions. The report made numerous observations and recommendations concerning such issues as the need for an Organization-wide outsourcing policy; proficient management of the outsourcing procurement process; standardization of requests for proposals; improved training; better assessment of vendor performance by programme managers; and establishing an outsourcing focal point within the Department of Administration and Management to identify potential areas for outsourcing and to assist in assessing the costs and benefits. Management advised OIOS that it had endorsed the recommendations and had taken action to strengthen the monitoring of vendor performance and to implement a standardized form for requests for proposals.

OIOS undertook a comprehensive review of outsourcing, covering operations at Headquarters, offices away from Headquarters and selected peacekeeping missions.

3. Air services

60. The OIOS Investigations Section received reports, beginning in the third quarter of 1996, of irregular procurement of aviation services by United Nations staff and of misconduct by an aviation vendor and its broker, involving an attempt to manipulate the procurement process and to provide false or misleading documentation relating to certification, airworthiness and registration of aircraft.

61. After a lengthy and comprehensive investigation, no evidence could be found of improper practices by United Nations staff in the procurement of aviation services, either in missions or in the Secretariat. However, the investigation did find that several vendors were operating in contravention of United Nations and international aviation regulations. It was also determined that the United Nations was occasionally utilizing the services of vendors who had questionable safety and maintenance programmes; in one case, a vendor was found by the International Civil Aviation Organization (ICAO) to have failed to adhere to basic international aviation standards. Another vendor was found to have provided the United Nations with false or misleading documentation relating to the registration, airworthiness and certification of the company in order to obtain United Nations aviation contracts.

In one case, a vendor was found by ICAO to have failed to adhere to basic international aviation standards.

62. One vendor was found to have employed various tactics in an effort to secure a commercial advantage in bidding for aviation contracts. The vendor was found to have arranged for unfounded complaints to be lodged against actions taken by United Nations staff in aviation contract matters, which caused unnecessary delays, confusion and mistrust between certain vendors and United

Nations staff. The investigation also found evidence of problems in the processing of vendor invoices. Recommendations were made to assist in the management of United Nations aviation contracts and operations, both at Headquarters and in the missions.

63. Based on the findings, OIOS recommended that the substantive departments involved in aviation matters commence action to remove from the roster of approved vendors those found to have violated United Nations and international aviation regulations. Those departments have notified the vendor of the OIOS findings. The vendor will be given an opportunity to respond further to these issues before a final decision is taken to remove him from the vendor roster.

4. Catering

Catering operations at Headquarters

64. Pursuant to a request from the General Assembly, OIOS audited the management of catering facilities at Headquarters, which have been operated by a contractor under a profit and loss arrangement since 1986 (A/51/802, annex). Overall, the audit found that although the existing arrangement had helped to avoid financial losses, the Assembly's desire to make catering financially self-supporting had not been fulfilled. The contractor was allowed to retain all the profit without reimbursing the United Nations for the costs of maintaining the catering facilities. Thus the contractor retained a profit of $12 million between 1986 and 1996 with limited capital investment, while the United Nations subsidized catering operations.

Under the new contract, the contractor will reimburse the United Nations for costs related to catering facilities and equipment and will make substantial capital improvements, while the United Nations will receive a share of a portion of gross sales.

65. The audit also disclosed several other weaknesses in such areas as monitoring operations and contractor performance, health inspections and vendor selection. To address those problems, the report made a series of specific recommendations, all of which have been implemented in the new 1997 catering contract. Under the new contract, the contractor will reimburse the United Nations for costs related to catering facilities and equipment and will make substantial capital improvements, while the United Nations will receive a share of a portion of gross sales, subject to a minimum of $500,000 per annum.

Investigations

66. In August 1996, the Investigations Section received a report that a vendor providing catering services to peacekeeping missions had misappropriated a substantial amount of United Nations equipment. Additional information was obtained by investigators in Nairobi and New York that supported the original report and indicated further that the misappropriated equipment was on board several of the vendor's vessels, which were being held in Mombasa, Kenya. This information was provided to the Kenya Police, who immediately began an investigation. In support of the police investigation, OIOS formed a five-man team with personnel from OIOS, the Field Administration and Logistics Division and the United Nations Office at Nairobi to assist the Kenya Police in identifying and retrieving the United Nations equipment during a logistically difficult, six-week operation in Mombasa. Operating from United Nations databases, with the special knowledge of United Nations equipment of the team members and the necessary logistics expertise provided by the Field Administration and Logistics Division staff assigned to the case, the Kenya Police search of the vendor's vessels produced stolen United Nations equipment, including vehicles and tanktainers, with a conservative valuation of approximately $400,000.

OIOS provided the Kenya Police with evidence of United Nations ownership of each of the items and detailed statements by each of the team members concerning the identification and recovery of the seized items.

67. The OIOS investigators provided the Kenya Police with evidence of United Nations ownership of each of the items and detailed statements by each of the team members concerning the identification and recovery of the seized items. Following a review of the criminal case by the Director of the Criminal Investigation Division of the

Kenya Police, the case was forwarded to the Attorney-General of Kenya, who has accepted it. Criminal charges have been filed. OIOS has expressed its appreciation to the Director of the Field Administration and Logistics Division for his support and the support of members of his staff who have contributed so significantly to this successful recovery and to the United Nations Office at Nairobi for sharing the expertise of a member of its staff in Nairobi.

68. Pertinent findings from the investigation were also provided to the Office of Legal Affairs to assist in the arbitration case brought by the vendor; while the United Nations acknowledged that some moneys were due to the vendor under the terms of the contract, the vendor's claim of $30 million far exceeded that amount. Evidence adduced in the course of the investigation was utilized effectively. The final award was less than a third of that claimed.

5. Local committees on contracts of the Office of the United Nations High Commissioner for Refugees

69. Local committees on contracts are authorized by the Headquarters Committee on Contracts to purchase specified goods and services from local and/or regional suppliers, generally up to a spending limit of $200,000. An OIOS audit showed that operations of local committees and monitoring by the Headquarters Committee on Contracts needed to be improved further. In one case, a local committee authorized 36 purchases under emergency procedures valued at $5.3 million without the knowledge of the Headquarters Committee on Contracts. In another case, the local committee continued to operate after the expiry of its authorization since the Headquarters Committee notified local committees whose authority had expired only after the actual expiration date. OIOS recommended improved reporting and monitoring; consideration of temporarily placing a purchasing officer in offices with newly established local committees on contracts; and alerting local committees prior to their expiration date. Remedial action has been taken by UNHCR, and from 1 January 1997, all local committees on contracts have been required to report quarterly to the Headquarters Committee on Contracts.

D. Problems in establishing new bodies

1. General observations

70. As discussed in last year's report, Member States have relied extensively on the Organization in recent years to help address the new challenges and problems facing the international community, often requiring the establishment of new bodies. From an oversight perspective, the start-up phase of any new body is risk-prone, given such factors as time pressures, lack of expertise, poor planning and inadequate resource allocations. OIOS continued to give priority audit attention to the establishment of new bodies so that problems could be identified and resolved as soon as possible. As in the previous reporting period, a good deal of OIOS effort in this priority work area focused on the International Tribunals for the Former Yugoslavia and Rwanda.

2. International Tribunal for the Former Yugoslavia

71. At the request of the General Assembly (resolution 50/212 C), OIOS evaluated the Tribunal's 1997 resource requirements shown in its proposed budget of $68.7 million, which reflected a $33.3 million (94 per cent) increase over the 1996 appropriation and an additional 197 posts. The OIOS report (A/51/824, annex) identified at least $6 million in reductions due to unsubstantiated and duplicated post requests and non-essential expenditure projections. Additional savings of about $5.5 million could be realized if alternatives to constructing and outfitting a second courtroom (such as running dual sessions in the existing courtroom) were fully considered. Further budget reductions could be achieved by examining potential operational improvements such as outsourcing. The revised budgetary estimates submitted by the Secretary-General incorporated most of the recommendations.

3. International Criminal Tribunal for Rwanda

OIOS identified at least $6 million in reductions due to unsubstantiated and duplicated post requests and non-essential expenditure projections.

72. In its resolution 50/213 C of 7 June 1996, the General Assembly requested that OIOS conduct a review of the International Criminal Tribunal for Rwanda to identify problems and recommend measures to enhance the efficient utilization of resources and to report those findings to it at its fifty-first session. At the time the resolution was adopted, OIOS had already received several complaints concerning deficiencies and irregularities in operations of the Tribunal. A team of auditors and investigators was sent

to Kigali and Arusha in October and November 1996 to interview senior officials of the Tribunal and other staff members, as well as seconded experts, and to conduct on-site inspections of property and facilities. Additional interviews were conducted with Secretariat officials at Headquarters and with current and former officials of the Tribunal. Since that time some of the major problems have been addressed and remedial action has already been taken in a number of key areas.

73. While the report (A/51/789, annex) did not confirm allegations of corrupt practices, such as nepotism, racism and misuse of funds by managers, it disclosed management errors and serious shortcomings in almost all areas of the Tribunal's work. The situation in Arusha and Kigali was troubled from the inception of the Tribunal, especially by short-term funding arrangements that affected the Tribunal operations and limited the ability to recruit experienced staff; and the decision to have separate geographic locations for the Office of the Prosecutor and the other organs of the Tribunal, which impeded communications between the two locations and contributed to the strained relations between the Office of the Prosecutor and the Registry.

The review disclosed serious operational deficiencies and mismanagement in virtually all areas of the Tribunal's work.

74. The team of investigators and auditors found evidence that the administrative support functions did not operate either efficiently or effectively and, in some cases, virtually not at all. Some of the findings from the report include:

(a) United Nations rules and regulations for procurement, personnel and financial functions were disregarded;

(b) Finance had no accounting system and could not produce allotment reports, so that neither the Registry nor United Nations Headquarters had budget expenditure information;

(c) Personnel in key positions did not have the required qualifications;

(d) In Kigali a lack of delegated authority combined with a severe shortage of vehicles, computers and other law office equipment and supplies hampered the staff in conducting their work.

75. Many of the problems raised could have been avoided had the management of the Registry and the Office of the Prosecutor taken the necessary steps:

(a) Adhered to the rules, regulations and administrative issuances of the Organization, as well as to standard management practices for instructing and communicating with staff members and others about the goals and timetables of the Tribunal;

(b) Maintained the separate, specifically assigned authority and responsibilities unique to each organ, in particular between the Registry and the Office of the Prosecutor;

(c) Developed strategies and mechanisms for achieving those goals and for resolving internal disputes transparently.

76. Much that was accomplished by the Registrar had to be done under difficult circumstances and without the backup needed from Headquarters. OIOS was told repeatedly by Secretariat staff and officials that the Tribunal was not the responsibility of any Secretariat department. Consequently, the Tribunal did not receive needed guidance and assistance.

77. OIOS believes that a misperception, or at least an over-interpretation, of the Security Council's request that the Tribunal be established as an independent body caused this problem. The judicial independence of the Tribunal is unquestioned, but the Tribunal does operate under the authority of and with funding provided by the United Nations and is subject, therefore, to the rules, regulations and administrative oversight of the Organization. When the Organization assumed the responsibility of establishing the Tribunal, it also assumed the responsibility of ensuring that it was able to operate effectively, bearing in mind the purpose of the Tribunal, which is to bring to justice those individuals responsible for the genocide and other systematic, widespread and flagrant violations of international humanitarian laws committed in Rwanda and neighbouring States.

78. In February, the Secretary-General convoked a meeting of high-level Tribunal and Secretariat officials to discuss the OIOS report and formulated measures to address the situation, including the appointment of new administrators.

79. An OIOS team of auditors and investigators was scheduled to visit Arusha and Kigali in September 1997 to verify the progress being made on the recommendations in the report.

4. United Nations Special Coordinator for the Occupied Territories

80. An audit of the Office of the Special Coordinator for the Occupied Territories disclosed that while the coordination and substantive objectives of the Office had generally been achieved, there was a need to formalize an agreement with the Palestinian Authority in order to provide a legal framework for its operations. There was also a need for the Office to obtain an exemption from value added taxes on goods and services purchased in the occupied territories. Management agreed with the OIOS recommendations in those areas and has initiated action to formalize agreements with the Palestinian Authority. OIOS also recommended and management agreed that the Office should review organizational arrangements for the provision of administrative support; increase control over approval of staff overtime, official travel and use of vehicles; better organize and plan for office premises; and avoid duplicating functions carried out by other United Nations agencies.

5. International Seabed Authority

81. An audit of the expenditures of the International Seabed Authority funded by the United Nations in accordance with General Assembly resolution 48/263 of 28 July 1994 was conducted in November and December 1996. The audit did not disclose major problems, although improvement is needed in such areas as the consolidation of expenditures and timely recruitment of staff.

6. Secretariat of the Convention on Biological Diversity

82. An audit of the secretariat, which was established in Montreal, Canada, in February 1996, showed significant management problems in all areas reviewed with regard to establishing administrative functions. Major efforts will be needed to correct the situation. Administrative and financial procedures were often not in compliance with United Nations rules and regulations and internal controls were weak. Concerning financial management, for example, the audit showed that fund-raising capacities should be strengthened and that improvements were needed in cash management. Improvements were called for in procurement, where United Nations rules were not followed, and in travel, where procedures had not been established and where some trips were not adequately justified. OIOS also sees potential for improvement by sharing certain administrative services with other local United Nations organizations.

III

Summary of major activities by oversight function

A. Audit and management consulting

1. Overall developments

83. During the reporting period, the audits conducted by the Audit and Management Consulting Division covered the activities of the Secretariat, including peacekeeping missions, technical cooperation projects and United Nations information centres; the United Nations Offices at Geneva, Nairobi and Vienna; the Economic Commissions for Africa (ECA) and for Latin America and the Caribbean (ECLAC); and the Economic and Social Commissions for Asia and the Pacific (ESCAP) and for Western Asia (ESCWA); the United Nations Environment Programme (UNEP) and selected convention secretariats; the United Nations Centre for Human Settlements (Habitat); UNHCR; the International Trade Centre UNCTAD/WTO; and the International Tribunals for the Former Yugoslavia and for Rwanda.

The Division audited assets of $402 million, income of $153 million and expenditures totalling $1.8 billion.

84. During the period, the Division audited assets of $402 million, income of $153 million and expenditures totalling $1.8 billion. Those audits identified about $28 million in potential savings. Almost $16 million in savings and recoveries were realized from actions recommended by the Division in this and prior periods. OIOS continued to use a conservative approach to estimating cost savings. Closely monitoring the implementation of recommendations has helped to increase actual recoveries.

85. During the period, the Audit and Management Consulting Division opened 162 audit assignments, as follows:

Headquarters Section	13
Peacekeeping Section	39
Field Section	28
Electronic Data-Processing Audit Section	5
Management Audit and Consulting Section	10
European Section	15
African Section	24
OIOS/UNHCR Audit Section	28
Total number of opened assignments	**162**

86. The audits resulted in 66 audit reports addressed to senior management. In addition, numerous audit observations and other communications were issued. The audit reports contained a total of 811 recommendations. It must be emphasized that OIOS has made a policy decision to focus its monitoring activities on those recommendations contained in audit reports. Unlike that contained in last year's report, the figure shown does not include the recommendations contained in audit observations issued by individual auditors. (Recommendations made in all types of audit communications totalled 2,200 during the current reporting period.)

87. The 811 key recommendations contained in audit reports can be categorized by the following objectives:

Compliance with rules, regulations and policies	241
Economic and efficient use of resources	237
Protection of assets	123
Adequacy of internal controls	112
Achievement of objectives	98
Total recommendations	**811**

Recommendations were made in the following functional areas:

Programme/project management	150
Procurement	157
Property management	133
Cash management	30
Information systems	41
Financial accounting/reporting	121
Personnel/payroll/travel	179
Total recommendations	**811**

88. The Division began the period in July 1996 with a vacancy rate of about 15 per cent. As at 30 June 1997, the Division had filled 50 of its 56 Professional posts, reflecting a vacancy rate of about 11 per cent. Women held 15, or 30 per cent, of the 50 encumbered Professional posts as at that date, including two section chief positions.

89. To maximize the use of training funds, the Division contracted with a public service entity to provide generic and customized audit training for New York and Geneva staff on a wide range of topics, including prevention of fraud, activity-based costing, interviewing techniques, risk assessment, auditing computer-based data and performance auditing. Audit staff also received in-house training through developing and analysing case studies on various United Nations audit issues, by inviting experts from other audit organizations to present training programmes and by asking managers from various United Nations departments to provide overviews of their department's mission and operations, which provides a client's perspective on how the auditors can better serve client needs. Finally, Division staff attended conferences and seminars sponsored by various professional organizations.

2. Significant findings and recommendations

Committee on Missing Persons

90. The Committee on Missing Persons was created by the General Assembly in 1981 to determine the fate of Greek-Cypriot and Turkish-Cypriot persons missing in the intercommunal fighting. An OIOS audit showed that although the Committee had been operating for over 12 years, it had not achieved any of its overall objectives. Of the almost 2,000 cases of missing persons listed by both parties, not one had been reviewed at the time of the audit, primarily because of continuing disagreements between the parties concerning such matters as the basis for concluding cases. Subsequent to the OIOS audit, talks between the two Cypriot leaders recently produced an agreement on the issue of missing persons. In view of that agreement, OIOS understands that abandoning the Committee on Missing Persons at the present time could send the wrong message to the parties involved. However, OIOS will follow up to determine whether the new agreement results in the expected progress in the operations of the Committee.

Regional commissions

91. Audit coverage of the regional commissions was extensive during the period, with audits conducted at four commissions and one subregional office. At ECLAC, there was a potential for better project selection arrangements and improved project monitoring and evaluation. At the ECLAC Subregional Office in Mexico, the auditors found inadequate monitoring of subprogramme implementation; overbudgeting; inadequate compensation of costs incurred in providing administrative support to UNEP (including the absence of a formal agreement concerning the scope, terms and conditions of such support). There were also several other problems, including delays in establishing a new contract for travel agency services and non-recovery of rent overpayments. OIOS was informed that appropriate remedial action had been initiated or taken.

92. At ESCWA, certain administrative and financial procedures needed strengthening. The audit also disclosed that the move from Amman to new headquarters in Beirut needed to be better planned and organized. At the time of the audit, the resources required for the move, estimated at over $4 million, had not yet been secured. During a previous move, about $3.6 million continued to be spent on salaries and other costs to maintain premises in Baghdad, after the headquarters had been transferred to Amman, owing to delays in finalizing the negotiations with the Government of Iraq.

93. The audit of ECA showed that major improvements were needed in all areas reviewed to strengthen internal controls and ensure compliance with rules and regulations. The audit disclosed that bank reconciliations were not done on a timely basis; adjusted accounts receivable from vendors exceeded $500,000, some dating back to the 1980s; more than $650,000 in accounts receivable from staff members was outstanding; the procurement plan was outdated; and procurement functions were not adequately segregated. Other major problems included inadequate security and a lack of adequate resources applied to protecting the $100 million investment made in the recently

completed United Nations Conference Centre. OIOS was informed that ECA had adopted a plan of action to strengthen its financial and administrative management and that a number of measures had already been taken to implement the audit recommendations.

At ESCAP there was little congruence between programmatic and organizational structures and no correlation between budgets and financial statements.

94. At ESCAP the auditors identified a series of management and internal control weaknesses. There was little congruence between programmatic and organizational structures and no correlation between budgets and financial statements; it was therefore difficult to assess each subprogramme's performance, since the related activities were handled by a number of organizational units. While the budget submission for ESCAP had been prepared on the basis of a multisectoral approach, the accounts structure continued to follow the sectoral approach. Financial results of subprogramme implementation were therefore unknown. The audit also indicated a need to reorganize the ESCAP secretariat by reducing, *inter alia*, the number of substantive divisions; to avoid duplicating the activities of other United Nations agencies; to strengthen monitoring of programme performance; and to organize self-evaluation of project and programme outputs. Several other problems relating to rental charges, rental subsidies and procurement were also disclosed. OIOS was informed that the Executive Secretary had commenced the necessary action to reorganize the ESCAP secretariat and that remedial action with regard to the other issues had been either taken or initiated.

United Nations Environment Programme

95. An audit showed that the UNEP Regional Coordination Unit for the Caribbean was neither well organized nor well managed. The audit identified serious problems such as poor programme management, inadequate programme leadership, late project approval, duplication with other agencies and excessive travel by Unit officials. The auditors recommended several steps, including significantly improved programme and fund management; streamlined project approval procedures; improved consultation arrangements to avoid duplication; and ensuring that travel was fully justified and planned so as to minimize the impact on operations. Management has advised that most of the recommendations have been implemented.

The UNEP Regional Coordination Unit for the Caribbean was neither well organized nor well managed.

96. An audit of the secretariat of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) revealed a commendable improvement in financial and administrative matters discussed in a previous audit report. However, several matters still required corrective action, including better defined organizational guidelines, strengthened project and financial management reporting systems and development of an integrated accounting system.

Department of Public Information

97. OIOS conducted several audits of Department operations during the reporting period. An audit of the relocation of the United Nations Information Centre in London showed that although the move served the purpose of a unified United Nations presence in the country and appeared to be justified, there were some procedural shortcomings, such as delays in concluding the new lease, which had resulted in unnecessary rental costs of about $24,000, and failure to confine expenditures within the allotment. Further, virtually all of the major activities associated with the move, including negotiations with the landlord, had been conducted entirely by the Director of the Information Centre, without a specific delegation of authority.

98. OIOS conducted audits of the sales of publications operations and of the United Nations Bookshop, both of which operations had been transferred from the Department of Administration and Management to the Department of Public Information in September 1995. Regarding the sale of United Nations publications, the audit disclosed serious internal control weaknesses, including inadequate supporting documentation for sales, expenditure and inventory, which precluded the auditors from ascertaining the validity of financial data. Other problems included unauthorized procurements, inappropriate accounting and inventory methods, inadequate safeguarding of assets and failure to ensure compliance with United Nations rules. The

audit concluded that, when fully costed, the sale of publications failed to generate any profit.

99. Regarding the United Nations Bookshop, the audit disclosed a wide range of problems, including inappropriate accounting and inventory control systems, which made it virtually impossible to analyse financial results; overstaffing; numerous accounting errors; and internal control weaknesses. In addition, the auditors found that the contractor's role was actually limited to providing staff, with guaranteed reimbursement of all staff costs and a management fee, while the United Nations bore the full financial risk of the operation. The report recommended specific corrective actions on the matters outlined above and urged the Department of Public Information to consider fully outsourcing Bookshop operations.

Department of Development Support and Management Services

100. An OIOS audit showed that deficiencies previously identified by the Board of Auditors in 1994 concerning the recruitment of project experts and consultants generally persisted. The auditors found that the computerized roster of candidates had not been updated and that of a sample of 37 experts and consultants recruited, 30 had not appeared in the roster. There continued to be "rush recruitments", which were noted in 83 per cent of the cases, and in 36 of the 37 recruitment actions tested only one candidate had been considered. This absence of competition raised questions as to whether value for money had been obtained. In addition, candidate credentials had not been independently verified and recruitment functions were not segregated from the Department's substantive activities. Other findings included continued recruitment from a narrow geographical base with apparently no attempt to diversify recruitment sources as prescribed by existing policies, finalization of special service agreements during or even after the consultancy in many cases and high consultancy fees. The Department agreed to take most of the remedial actions recommended and is working with the Department of Administration and Management in preparing detailed guidelines for the recruitment and use of consultants.

Deficiencies previously identified by the Board of Auditors in 1994 concerning the recruitment of experts and consultants generally persisted.

Integrated Management Information System

101. The Electronic Data-Processing Audit Section of the Audit and Management Consulting Division continued to review the design, construction, testing, data conversion and implementation of various Integrated Management Information System (IMIS) components at Headquarters and at offices away from Headquarters. A primary focus of such audits is to ensure that IMIS conforms with data-processing and audit standards for information systems and that adequate internal controls are built into the system. The Division is also focusing on the IMIS implementation process to ensure that every effort is made to implement the system in an efficient and timely manner.

102. A review of IMIS security showed that technical security provisions needed enhancement and that the Organization needed to formulate a security policy, implement procedures to monitor IMIS security and enforce security standards. An audit of IMIS budget and project performance during the biennium 1994-1995 identified various positive achievements made by the Department of Administration and Management in implementing the new system. OIOS expects that IMIS will provide significant improvements and efficiencies when fully implemented. However, the audit also found that IMIS had not been satisfactorily institutionalized within the Organization; the allocation of human resources to implementing IMIS and to performing user tasks was untimely and sometimes inadequate; and steering committee monitoring actions and modalities needed to be improved. Management concurred with the need to further refine and enhance security provisions and policy and pointed out that IMIS supported the initiatives aimed at decentralization and delegation of authority, for example, by separating actions required for a given administrative process from the authority to perform the given actions (preparation/approval).

A review of IMIS security showed that technical security provisions needed enhancement.

Travel

103. The Division conducted a comprehensive management audit of United Nations travel, including selected entitlements, re-engineering and process issues, contractor performance, the lump-sum option and the impact of IMIS implementation on travel. The report acknowledges the

difficulty of managing the travel function in a large, complex international organization like the United Nations and identifies several potential improvements. These include development of better travel cost information; issuance of a clear and concise travel manual; improvements in processing travel requests and claims; clarifying and/or restricting certain travel entitlements, such as stopovers; and more systematic pursuit of assistance from the contractor. The report also made several recommendations concerning the lump-sum option, including administrative improvements and reduction of the lump-sum rate from 75 to 65 per cent.

Telecommunications

104. Audits of the use of telecommunications at the United Nations Office at Nairobi, the United Nations Centre for Human Settlements (Habitat) and UNEP disclosed a number of management, financial and internal control weaknesses. At the United Nations Office at Nairobi, the audit identified improvements needed in the reimbursement for personal use of telephones and faxes, and in the reimbursement of telecommunications costs by other United Nations agencies and contractors. The auditors also recommended improved telecommunications equipment inventory controls and analyses to determine if lines were fully utilized. At Habitat major improvements were needed in such areas as settling and collecting outstanding charges and in establishing controls over telecommunications lines. At the time of the audit, Habitat and the United Nations Office at Nairobi (which had assumed responsibility for telecommunications in January 1996) had more than $1 million in outstanding receivables from various agencies and contractors, which was subsequently reduced to $417,000. Further, Habitat had since October 1994 accumulated outstanding telecommunications bills totalling almost $900,000. While the United Nations Office at Nairobi eventually paid the telephone company in January 1997, the amount has yet to be settled between the Office and Habitat. At UNEP certain internal controls needed to be strengthened and UNEP has agreed to adopt procedures to be recommended by the United Nations Office at Nairobi in that area. In addition, a substantial value added tax refund should be followed up or written off, if uncollectable.

United Nations Joint Staff Pension Fund

An audit of the Fund identified overpayments of more than $400,000; to date almost $100,000 has been recovered.

105. During the reporting period, the Division fully assumed the internal audit function for the United Nations Joint Staff Pension Fund. The audit services are primarily intended to assist Fund management in maintaining sound internal controls to ensure efficient operations. As part of a comprehensive audit of the Fund's secretariat, the Division has reviewed the Fund's system to verify continued beneficiary entitlement. The audit identified 11 cases of overpayment totalling more than $400,000 resulting from the non-reporting of death of beneficiaries. To date almost $100,000 has been recovered. Three of the cases involve presumptive fraud by survivors of deceased beneficiaries. The Fund is pursuing all possible avenues for recovery of the still outstanding overpayments. The Division also assisted in selecting an outside firm to undertake a comprehensive audit of the Fund's investment activities.

United Nations International Drug Control Programme

106. Based upon an agreement between OIOS and the United Nations International Drug Control Programme, the Division audited projects of the Programme in Brazil, Jamaica, Kenya, Pakistan and West Africa. The audits showed the need to strengthen the accounting and financial management capacities of implementing partners. The audit of a project to prevent drug abuse and HIV infection in Brazil disclosed that there were delays in project implementation and that the applicability of United Nations regulations and rules needed to be clarified for projects funded through cost-sharing arrangements. The audit in Pakistan revealed the need to strengthen project management reporting procedures, the financial system and controls over accounting records and reports. The audit in West Africa identified internal control weaknesses in communications, property control and procurement, and recommended that clearer guidelines be established for monitoring the substantive aspects of the operations of national bodies.

3. Status of ongoing audits requested by the General Assembly

107. Pursuant to General Assembly resolution 51/221 B of 18 December 1996, the Division conducted an audit of the use of consultants and associated contractual procedures. The audit's specific objectives included reviewing hiring practices and the use of consultants throughout the global secretariat and evaluating their adequacy in ensuring compliance with relevant General Assembly resolutions. The audit covered special service agreements relating to consultants and individual contractors and included both regular budget and extrabudgetary resources. Major findings and recommendations will be reported to the Assembly at its fifty-second session.

B. Investigation

1. General developments

108. Significant changes in the sources and types of cases received by the Investigations Section were noted during the reporting period: heads of offices, departments and funds and programmes have requested investigative assistance; serious cases of broader scope and greater complexity have been received; and four major cases have been provided to law enforcement authorities. During the reporting period, the Investigations Section received 172 reports and suggestions as provided for in ST/SGB/273 (paras. 16-18), compared with 205 last year. The difference is due to the decrease in the number of personnel grievances received; while a few personnel matters are still being sent to OIOS, the message that OIOS has not been established to provide yet another layer of review of personnel issues has been accepted.

109. The geographical distribution of the caseload of 172 reports and suggestions is as follows: 69 in the Americas, inclusive of Headquarters; 49 in Europe; 44 in Africa; 6 in Asia; and 4 in the Middle East. Of these, a total of 43 reports were received concerning the operational funds and programmes, including 17 reports in Europe and 22 in Africa. Of the 27 reports received from anonymous sources, 8 were received through the Hotline facilities.

110. Member States have expressed concern about two issues connected to the ability of staff members and others, as provided for in ST/SGB/273 (paras. 16-18), to make reports or suggestions to OIOS: firstly, reports that are known to be false by staff members who seek to use the Office to retaliate against others with whom they have differences; and secondly, retaliation against staff members who file complaints or suggestions with OIOS.

111. While the Investigations Section receives and carefully considers all reports from staff members and others who wish to make complaints of violations of United Nations rules, regulations and administrative issuances, paragraph 18 (e) of ST/SGB/273 provides a caution:

> "The transmittal of suggestions or reports to the Office with knowledge of their falsity or with wilful disregard of their truth or falsity shall constitute misconduct, for which disciplinary measures may be imposed."

To date only one complaint — from a vendor — was shown to be such a report and the Section has recommended to the responsible programme managers that action be taken against the vendor. On the second issue, paragraph 18 (f) provides for disciplinary action to be taken against those who seek to retaliate against staff members who provide information to the Office. Thus, the mandate provides specific protection against retaliation for cooperation provided to OIOS. To date, OIOS has found and reported on one case of retaliation; disciplinary action is pending.

112. In the course of the reporting period, the Section investigated 33 reports that were found to be bona fide but which resulted in the allegations not being proved for lack of sufficient evidence. Consequently, the individuals who were accused in those cases were cleared.

113. In 1996, the focus was on clearing the backlog of cases; this year the focus has been on rapid response to serious cases and requests for assistance on matters of substantial organizational impact. During the reporting period 23 reports were issued to programme managers, an increase of 65 per cent.

114. Increasingly, the Investigations Section is being requested by offices, departments, funds and programmes to undertake investigations on their behalf. In addition, the Section has been called upon by offices and departments, as well as the operational funds and programmes and even the specialized agencies, to provide advice and consultation on problems and investigative issues in their offices. Six of the funds and programmes have requested investigative assistance during the period, some more than once. Of the four completed matters that involved criminal activity, all were accepted by the law enforcement officials of the relevant jurisdiction with a view to undertaking criminal prosecutions.

115. In addition, the Investigations Section has made an effort to provide ongoing advice and assistance, both during and at the completion of reporting processes. During each case, where permissible, OIOS investigators advise the

head of office or mission that an inquiry is being conducted; in field assignments, at the completion of field work, a review of preliminary findings is given as the requirements of the inquiry permit. For missions, United Nations offices away from Headquarters and at Headquarters, the Section has renewed its efforts to resolve issues with the heads of offices and departments in order to be an effective agent of change. The Section has learned from its experiences that effective change comes not only from identifying problems and making recommendations, but also from working towards agreement with the heads of offices and missions.

116. For the five posts approved by the General Assembly for the biennium 1996-1997, recruitment efforts are under way that are being closely coordinated with OHRM. With these additions, the Section will have 13 staff members at Headquarters and 2 staff members at the United Nations Office at Nairobi.

117. In order to meet the needs of the Organization better and to provide an efficient and economical means of conducting investigations away from Headquarters, two investigative officers have been outposted to the United Nations Office at Nairobi. This has enabled OIOS to make investigative expertise available to United Nations offices in Africa. In addition, by establishing an investigative capacity where the African Section of the Audit and Management Consulting Division is established, joint projects can be better coordinated and office expenses minimized. The senior of the two investigative officers at the United Nations Office at Nairobi has directed or participated in significant cases for the Section, including two described in this report, the review of the Rwanda Tribunal (see paras. 72-79), and the investigation of the theft of United Nations equipment by a vendor (see paras. 66-68). It is anticipated that with the new staff recruited, OIOS will be able to rotate staff between the two duty stations.

118. In the first meetings after the appointment of the Under-Secretary-General for Internal Oversight Services, requests were received from the Fifth Committee and the Advisory Committee on Administrative and Budgetary Questions for greater clarity as regards the role and terms of reference of the Investigations Section. In response to those requests, two documents were issued. On 25 April 1996, the terms of reference were published in an administrative instruction (ST/IC/1996/29), which provided guidance on terms used in investigative procedures, such as "mismanagement", "misconduct", "waste of resources" and "abuse of authority". An Investigations Section manual has now also been issued in French and English. It was designed to provide the United Nations community with information on the protocols, procedures and policies followed in the conduct of investigations. With proper regard for due process and the rights and interests of the United Nations, as well as those of staff members, the Section has sought to provide clear statements on the methods of conducting investigations. The manual is available in hard copy from the Section and on the Intranet.

2. Two cases

119. In addition to the investigative activity described above (paras. 39, 50-52, 60-63, 66-68 and 72-79), two additional cases of note were reported during the period.

United Nations Centre for Human Settlements (Habitat)

120. Following an inspection of the United Nations Centre for Human Settlements (Habitat) conducted by the Central Monitoring and Inspection Unit (see paras. 133-136), the Section investigated three allegations noted in the Unit's report (A/51/884, annex). Firstly, a conflict of interest by a Habitat staff member; secondly, a lack of management response to the conflict of interest; and thirdly, a claim of retaliation against another staff member for having raised the issue in February 1994. (The latter claim of retaliation was not substantiated by the evidence.) The conflict issue centred on actions during 1991-1993 by a staff member whose spouse was an external consultant to Habitat and who had initiated, certified and evaluated projects undertaken by her husband and his firm for Habitat. The issue was first raised in November 1991. Management actions at the time were thought to have resolved the matter. However, as a result of concerns raised by staff involved in reviewing such contracts in Habitat, another management decision was taken in September 1993 that removed the staff member and her unit from contracts with the spouse or his firm. That decision was reasonable and did resolve the problem from that date forward. However, as a result of rumours and misinformation, the conflict questions did not abate. The investigators found that the discrepancy between the appearance of a conflict of interest and what was technically acceptable under the existing United Nations provisions also contributed to the continuing discussion of the issue for four years after the date, September 1993, when the actual problem was resolved by Habitat management.

121. After a detailed scrutiny of the pertinent United Nations staff rules and discussion with staff of the Office of Legal Affairs, OIOS determined that the current United

Nations staff rule on conflict of interest pertained to staff members, not spouses, who hold financial interests or are engaged in actively managing external companies with which the United Nations does business. Therefore, even though the staff member was married to the consultant whose work she was evaluating and certifying for payment, the current United Nations staff rules provide recourse for the Organization only where the staff member demonstrates an active participation in the management or financial holdings of an external company. The rule as written clearly did not satisfactorily protect the Organization in such circumstances. The Office of Legal Affairs and Habitat have accepted the OIOS recommendations and have provided information to OIOS on the status of implementation of those recommendations. A letter from Habitat management has been signed by the staff member in question and clearly separates the staff member from any future involvement with the consulting company that employs her spouse. Habitat has also commenced consultations with the Office of Legal Affairs with regard to the legal issues relating to future contractual relationships between Habitat and the consulting company.

122. On the subject of strengthening current United Nations provisions relating to conflict of interest, the Office of Legal Affairs has prepared, and the Staff-Management Coordination Committee has adopted, an amendment to the new draft Code of Conduct that will address the deficiency in the current rule and has been approved by the Secretary-General. The new Code is currently awaiting ratification by the General Assembly.

UNCTAD

123. The Investigations Section received a report in June 1996 from the Director of Administration for the United Nations Office at Geneva that a senior staff member of UNCTAD may have submitted a false miscellaneous obligation document in April 1996 in order to claim several thousand dollars. The scheme had first come to notice a few days earlier when two UNCTAD General Service staff were asked by the staff member to prepare related documents while he was on leave. They noted that the request was unusual and, upon further examination, observed serious irregularities. After making the discovery, they reported the matter to their supervisors and to the Secretary-General of UNCTAD, who launched a preliminary inquiry.

124. Following notification by UNCTAD, the administration of the United Nations Office at Geneva re-examined other miscellaneous obligations documents and payment vouchers submitted by the staff member. It appeared at that time that as much as $200,000 might have been claimed fraudulently by the staff member. OIOS commenced an investigation in July 1996 and the investigators uncovered a complex scheme by the staff member to defraud the United Nations. Based on available documentation and testimony received, the evidence indicated that the staff member, utilizing authority delegated to him as a senior member of staff, had been submitting false miscellaneous obligation document and payment vouchers for several years and appeared to have embezzled considerable sums of project funds. Moreover, using his delegated powers, he submitted additional false documents to hide the thefts.

125. In July 1996, the United Nations Office at Geneva made a criminal complaint to the Swiss authorities, who arrested the staff member pending investigation. The staff member, who accepted the evidence presented to the investigating magistrate by OIOS, was summarily dismissed. On 9 April 1997, the staff member signed a *Convention de remboursement* by which he formally admitted owing the United Nations a total amount of SwF 731,645 (US$ 609,704) and agreed to liquidate his entire assets, including the lump sum of his pension entitlements, in order to make restitution to the United Nations to the extent his assets made that possible. The United Nations has been able to recover approximately $350,000. After spending nine months in detention, the former staff member was released pending trial. The United Nations Office at Geneva has been admitted as a civil party. OIOS investigators and United Nations Office at Geneva administrators assisted the Prosecutor at trial by presenting evidence confirming the thefts. The Swiss three-judge court ruled the defendant guilty, as admitted, of the thefts. The sentence of 18 months' incarceration was suspended since the defendant had already served 9 months. The court further directed that the staff member pay the balance due to the United Nations from his thefts and be prohibited from entering Switzerland for 10 years.

C. Inspection

1. New inspections

126. In keeping with its mandate for oversight as set out in General Assembly resolution 48/218 B, OIOS conducted inspection reviews of the secretariats of UNEP (including the United Nations Office at Nairobi), Habitat and ITC. Reports on these investigations were submitted to the General Assembly in documents A/51/810, A/51/884 and

A/51/933, respectively. A summary of the main findings of the reports follows.

The basic issue facing UNEP concerns its role following the United Nations Conference on Environment and Development. It is not clear to staff or to stakeholders what that role should be.

United Nations Environment Programme and United Nations Office at Nairobi

127. The basic issue facing UNEP concerns its role following the United Nations Conference on Environment and Development. It is not clear to staff or to stakeholders what that role should be. Therefore, management's first responsibility should be to bring a focus to this new role, anchoring it to fewer priorities so as to increase the organization's effectiveness and its potential for impact.

128. The OIOS report (A/51/810, annex) points to the need for exploring the complementarities between the work of UNEP and that of the United Nations Conference on Trade and Development (UNCTAD) and the Department for Policy Coordination and Sustainable Development. It also highlights the relationship between UNEP and the environmental conventions, in particular those which have been adopted since UNCED, and suggests that such a relationship presents potential for a revival of UNEP's strategic role in guiding progress on the global environmental agenda. This potential has yet to be fully explored and exploited by the UNEP management.

The structure of the UNEP secretariat does not provide an adequate framework for streamlining its activities in an efficient and effective manner.

129. In terms of organizational and managerial issues, the findings suggest that the structure of the UNEP secretariat does not provide an adequate framework for streamlining its activities in an efficient and effective manner. Thus, the functional responsibilities of various departments are not entirely clear and there seems to be no clear delegation of authority. As for the internal instruments for collective guidance, they are cumbersome, dilute responsibility and impede efficiency. Furthermore, there is no coherent and comprehensive programme budget presentation of the organization's global involvement in environmental matters. The report also notes that UNEP's monitoring of implementation and assessment of results is fragmented.

130. With respect to the efficiency of resource utilization, the report concludes that the current administrative arrangements in UNEP are potentially wasteful of scarce resources through, *inter alia*, the excessive use of consultants/advisers with questionable value added; the establishment of higher-grade posts, which has resulted in a top-heavy secretariat, and the filling of those posts with incumbents whose suitability is not always clear; and the general weakness and dispersal of the mechanism to control disbursements.

131. The report acknowledges that the problems of UNEP have been aggravated by the limited capabilities of the newly established United Nations Office at Nairobi as a provider of common services in support of UNEP. To a large extent, this is attributed to the Office's overdependence on voluntary (extrabudgetary) funding and to the composition of its staff, which, in some respects, is insufficient in numbers and quality. The report concludes that the Office does not have the capacity to discharge its responsibilities adequately and that unless certain fundamental issues are resolved, the likelihood of alleviating the capacity problem is small.

132. Following the issuance of the report, the management of UNEP initiated a number of measures aimed at addressing the OIOS recommendations, namely, those relating to the structure of the secretariat and its top-heaviness, the hiring and management of consultants, relations with the environment conventions and the comprehensiveness of the programme budget presentation.

United Nations Centre for Human Settlements (Habitat)

133. The OIOS report (A/51/884, annex) identifies significant shortcomings in the management of the programmes and resources of the Centre, both human and financial. The findings suggest that the organizational structure reflects unnecessary duplications in functional responsibilities, creating confusion and blurring accountability, with little indication that the programme of work is coordinated and integrated. In that regard, the report points out that linkages between research and technical cooperation are not adequate and that there are very few examples of cross-divisional cooperation in

producing outputs. The report also suggests that there is no effective system for monitoring implementation, assessing results or providing feedback to upper management. The problem is compounded by limited oversight from the specialized intergovernmental body, the Commission for Human Settlements, which convenes only once every two years.

The OIOS report identifies significant shortcomings in the management of the programmes and resources of Habitat, both human and financial.

134. Internal instruments to provide collective guidance to management are absent and there is a lack of horizontal and vertical communication between the key actors responsible for programme delivery and resource utilization. There is little indication that policy issues are discussed. As for decisions relating to personnel and financial matters, they appear to be shaped behind closed doors and lack transparency. In that regard, the report refers to the weakness of the internal control system over resources. The lack of commitment on the part of management to the internal control process is reflected in the placement and the promotion of staff, the control of the staffing table, and the award of contracts.

135. The report suggests an environment that does not facilitate efficiency and effectiveness. Such an environment is largely responsible for moving the Centre's financial position into a deficit in both the Foundation and overhead accounts, affecting adversely the programme of work and the confidence of donors. It has also contributed to creating low morale in the secretariat, which has a good number of well-qualified and motivated staff who can produce work of real significance to a wide range of clients and stakeholders. The report concludes that the situation of Habitat is serious and should not be allowed to continue.

136. Following the Secretary-General's endorsement of the recommendations contained in the inspection report, the management of Habitat developed a plan of action for the revitalization of the Centre. The plan, which was distributed in July 1997 to the Permanent Representatives to the United Nations Office at Nairobi, relates to programmatic and coordination matters, the restructuring of the Secretariat and issues of financial and staff management and administration. The Department of Administration and Management has decided to dispatch a management mission to Nairobi. The tasks of the mission will include the preparation of the delegation of authority to the United Nations Office at Nairobi, the assessment of progress in consolidating financial authority and the strengthening of and improvements in personnel management at Habitat.

International Trade Centre UNCTAD/WTO

137. The inspection's findings (see A/51/933, annex) suggest that ITC's transition to becoming an effective and focused instrument for the promotion of expanded world trade has begun after a long period in which no direction was exercised. They also suggest that the process is only now beginning to have an effect and that it will need to be pursued with persistence and firmness by management and ITC stakeholders if ITC is to fulfil its role. In that regard, the report recognizes that much useful work has been done and a lot of candid introspection has taken place over the past two years. However, it points out that those efforts had not yet developed at the time of the inspection into a house-wide comprehensive strategy and an articulated work plan. It also points out that the role of ITC in promoting the objectives of its parent organizations (UNCTAD and WTO) and their role in the formulation of ITC programmes need to be further clarified.

ITC's transition to becoming an effective and focused instrument for the promotion of expanded world trade has begun after a long period in which no direction was exercised.

138. The inspection found fragmentation at the levels of formulating programmes, monitoring their implementation and assessing their results, and suggests that the mechanism for promotion of coordination, coherence, complementarities and the optimization of resource utilization within ITC, as well as between ITC and its parent organizations, needs to be strengthened. Reference is also made to the lack of a systematic approach for tracking progress in delivery and evaluating achievements. Such a situation is further aggravated by insufficient external oversight over the Centre's work by its parent organizations and intergovernmental bodies.

139. Regarding the newly introduced organizational changes, the findings suggest that the definitions of responsibility, authority and accountability of the sections and units under the main divisions are not clear.

Furthermore, inter-divisional responsibilities are vague and delegation of authority empowering senior officers and programme managers is lacking. As for the role of the Corporate Strategy and Quality Assurance Section, the report acknowledges its potential as a valuable management instrument. However, the Section appears to suffer from flaws either in concept or in implementation or both.

140. The report dwells on the managerial role played by the existing instruments designed to provide collective guidance and advice to management and considers them to be cumbersome, to cause delays where promptness is required and to dilute responsibility. It also dwells on the internal control system and identifies weaknesses in staffing table control as well as in the system of control over the utilization of consultants and experts.

141. On the question of staffing, the report suggests that the percentage of staff resources engaged in administrative functions appears to be too large for a small organization confronted with shrinking resources for project implementation. It also suggests that the organization's skill profile has not kept pace with the evolution of world trade.

2. Follow-up inspection reviews

142. Within the framework of OIOS responsibility to monitor the progress achieved in addressing the recommendations emanating from its oversight activities, the Under-Secretary-General for Internal Oversight Services decided to revisit those departments which had been subject to inspection reviews two to three years earlier. The purpose of the follow-up was to ascertain that the action taken by management in compliance with OIOS recommendations clearly addressed the problems that were identified in the inspection reports. UNCTAD, the Centre for Human Rights and ECE were visited in April 1997 and ESCWA in June/July 1997. The action of management in those departments was assessed against a set of benchmarks that determine qualitatively the degree of compliance with respect to each of the recommendations made by OIOS. A summary of the results of those reviews follows.

The action of management in those departments was assessed against a set of benchmarks that determine qualitatively the degree of compliance with respect to each of the recommendations made by OIOS.

United Nations Conference on Trade and Development

143. Management's compliance with the OIOS recommendations reflected in its report (A/50/719, annex) suggests that tangible progress has been made in addressing most recommendations of a strictly programmatic nature. Thus, the role of UNCTAD in the field of development and trade has been clearly articulated and its priorities well defined. Furthermore the intergovernmental machinery has been streamlined and reduced from 12 to 3 bodies.

144. The progress achieved in addressing the recommendations of a managerial and organizational nature is less evident. While the organizational structure has been streamlined and consolidated into fewer divisions as per OIOS recommendations, the functions and responsibilities of those divisions and their components have not yet been defined or documented, nor the organizational linkages and the lines of authority articulated. More important, while the various oversight units dealing with technical cooperation, policy coordination, monitoring and evaluation have been clustered under the Deputy Secretary-General, their respective terms of references remain unclear. This is worrisome because of the need to ensure coherence in policies and to integrate the programme of work in its totality, irrespective of source of funding. An integrated oversight mechanism is an essential instrument in strengthening the executive capabilities of the Secretary-General of UNCTAD in managing the process of change in a rational and coherent manner. It would also play an important role in reconciling various objectives, in shaping strategy and in providing advice to management. Under the circumstances, it appears that many of the recommendations that were intended to address issues of overlap and complementarities with other organizations and of effectiveness of control over programme support and clarity of technical cooperation policy and procedures will have to await the establishment of such a mechanism.

145. On the issues of personnel and administration, efforts are under way to address the various pertinent recommendations. This is true with respect to the redeployment of staff to adjust the skill profile to the requirements of the new structure, the preparation of the corresponding job descriptions, personnel action forms and the establishment of a benchmark system for administrative services. As for the issue of overstaffing, the management of UNCTAD informed OIOS that its proposed programme budget for the biennium 1998-1999 reflected reductions of 12.4 per cent in Professional posts and 11.7 per cent in General Service posts.

The situation just described suggests that more vigorous efforts are needed to keep up the momentum of the reform process initiated after the ninth session of UNCTAD.

146. The situation just described suggests that more vigorous efforts are needed to keep up the momentum of the reform process initiated after the ninth session of UNCTAD. In that connection, it should be noted that UNCTAD management is conscious of the matter and is currently engaged in the establishment of a human resource development strategy to enable UNCTAD to strengthen its human resource planning, job design, career development and training.

Centre for Human Rights

147. See above, paragraphs 53 to 56.

Economic Commission for Europe

148. The status of compliance with OIOS recommendations reflected in its report (A/49/891, annex) suggests that the recommendations of a programmatic nature have been dealt with in part. Their full implementation will be addressed in conjunction with the follow-up action to the Declaration and Plan of Action decided upon by the Commission on the occasion of the fiftieth anniversary of ECE. Thus, management is of the view that the 1998-1999 programme of work will reflect the strengthening of the research capability of the ECE secretariat for global policy analysis and intersectoral studies. Furthermore, the structure of the principal subsidiary organs will be streamlined and the initiatives taken by the various committees and working parties will be reconciled with the priorities and objectives of the work programme as approved by the Commission.

149. In terms of oversight, it was noted that no progress had been made towards the implementation of the pertinent OIOS recommendation. Management attributed the delayed implementation to the freeze on recruitment throughout 1996, which prevented establishing a system of self-monitoring and self-evaluation. ECE management expects an oversight system to be in place in the course of the next biennium. A related issue is that of the role and functions of senior staff in the Office of the Executive Secretary, which still remain unclear. The Secretary of the Commission and Special Assistant continue to be in charge of a variety of substantive matters as well as having direct administrative responsibilities. In that connection, it was noted that the OIOS recommendations regarding administrative services could not be addressed because of the budget reduction exercise and the corresponding freezing of various posts in the Office of the Executive Secretary, including that of the Chief of the Administrative Unit. A candidate has now been recommended for the post.

150. A demonstrable effort was made towards addressing the OIOS recommendations on introducing greater transparency through sharing information on resources with programme managers. However, little indication is available as to the measures initiated by management to improve on horizontal communications within the secretariat.

151. The above findings suggest that the ECE secretariat continues to operate with little or no systematic approach to tracking progress in implementation and to assessing the results of the work done. Until it establishes such a system, management will not be in a position to strengthen the internal system of accountability or to rationalize the process of resource allocation.

Economic and Social Commission for Western Asia

152. The review of ESCWA compliance with the OIOS recommendations (see A/49/891) suggests that tangible improvements have been made towards focusing the programme of work and enhancing its relevance to the objectives and to the needs of member States. Thus, the programme structure was changed from a sectoral approach, which caused dispersion of interrelated activities under 15 subprogrammes, to a thematic approach featuring five thematic subprogrammes serving as an umbrella for linking common objectives. This bolstered cohesiveness in the programme as a whole and created a number of mutually supportive activities the implementation of which was assigned to multidisciplinary task forces. As a result of that approach, the number of activities/outputs programmed in the 1998-1999 budget was reduced by 40 per cent from their level in 1994-1995. Thus, ESCWA drastically reduced the number of activities in the areas of agriculture and industry, owing to the existence of specialized United Nations agencies in those two areas, focusing on those with a regional perspective and a multidisciplinary dimension. On the other hand, activities in the area of transport and water, which are not addressed by any specialized body, were expanded, in addition to human development, gender issues and statistics, which are addressed from a regional perspective.

153. ESCWA endeavoured to strengthen the consultative process with its stakeholders in order to address the apparent weak involvement of member States in the process of programme formulation, an issue that was highlighted in the inspection review of 1993. Four specialized intergovernmental subsidiary bodies were established and two more have been recently mandated, thus bringing the total number of specialized bodies to six as compared with one in 1993.

154. Generally speaking, there has been a noticeable strengthening of the external oversight mechanism. The same can be said with respect to internal oversight. In that regard, the team noted that ESCWA had established an effective system for tracking the progress of work and providing periodic feedback to management. While the system remains quantitative in nature, it provides a good basis for further development into a full-fledged management tool. This would require introducing a qualitative dimension through the development of performance indicators to measure success against quantitative and qualitative norms and standards.

Generally speaking, there has been a noticeable strengthening of the external oversight mechanism. The same can be said with respect to internal oversight. In that regard, the team noted that ESCWA had established an effective system for tracking the progress of work and providing periodic feedback to management.

155. The progress achieved in addressing the organizational, managerial and administrative issues identified in the earlier inspection is also tangible, but the results are less evident. Thus, while the secretariat structure has been streamlined into fewer divisions as suggested in the OIOS recommendation, the resources remain spread over a large number of sections and units. Aside from the fact that such an organization carries within it a cumbersome administrative workload, some of these sections/units do not have the critical mass to make a meaningful contribution. They rely heavily in their work on the services of consultants. ESCWA management has already taken action to decrease reliance on consultants and intends to continue to do so. A broadly defined structure would provide more flexibility in addressing multidisciplinary activities and in meeting emerging needs. In that regard, ESCWA was invited to look into the cost-effectiveness of the Technical Cooperation Division, since the current volume of annual expenditures on operational projects does not appear to justify the existence of a separate division. It is also essential to articulate clearly the strategy for technical cooperation in order to provide a framework within which operational activities are conducted.

156. As for the overall managerial and administrative issues, improvements are demonstrable in many respects; there remain, however, a number of weaknesses that need to be addressed. First and foremost, the decision-making process needs to be more transparent and rationalized through an effective institutional mechanism for internal consultation. The effectiveness of such a mechanism requires that the terms of reference as well as the policies and procedures that govern the issues on which the committees and panels are expected to provide guidance to management be well articulated and that the members of those committees and panels are well aware of the procedures. It also requires that the composition of such committees is the result of well-defined and agreed-upon criteria on the basis of which the members are selected. In that regard, ESCWA should consider extending the consultative mechanism to include project appraisal review and publications review. Guidance to management in those two areas could be particularly effective.

157. In an apparent effort to address the issue of transparency, management has recently taken important steps to enlarge the consultative process. Those efforts must be enhanced and move towards addressing the apparently highly centralized decision-making process, in which authority tends to be delegated upward rather than downward. An essential step in addressing the issue would be to articulate clearly in a document the authority, responsibility and accountability of programme managers at various levels. The empowerment of middle management should be reinforced by clearly written policies and procedures.

ESCWA appears to be on the road to recovery and efforts to make its work relevant to the region are demonstrable, both in terms of the activities and services delivered, as well as in terms of the positive reaction of member States to the quality of those services.

158. All in all, and notwithstanding the above imperfections, ESCWA appears to be on the road to recovery and efforts to make its work relevant to the region are demonstrable, both in terms of the activities and services delivered, as well as in terms of the positive reaction of member States to the quality of those services. However, the current efforts of management towards that end need to be enhanced if the achievements are to be sustainable.

D. Monitoring

159. The current computerized programme performance system is designed to allow the Central Monitoring and Inspection Unit to prepare the Secretary-General's biennial report on programme performance of the United Nations. The system operates in a mainframe environment and its reporting function is inadequate for analytical purposes. In order to remedy the above limitations, the Unit is endeavouring to download the database from the mainframe to personal computers and to rewrite the programme and expand the system to provide further reporting options and analytical tools. The new system would enable the generation of a variety of reports on specific aspects of performance that could be useful to programme managers during the course of the implementation of their programme of work. It would also enhance the analytical presentation of the Secretary-General's report on programme performance.

E. Evaluation

In-depth evaluation of the programme on statistics

160. The report[1] on the in-depth evaluation of the programme on statistics reviewed the activities of the Statistics Division of the Department for Economic and Social Information and Policy Analysis and the statistical divisions of the regional commissions. It also included descriptions of related activities in the Statistical Commission and regional intergovernmental bodies concerned with statistics, subsidiary bodies and expert groups reporting to them, and the Administrative Committee on Coordination's Subcommittee on Statistical Activities.

161. The central focus of the report was on the needs of the primary users of the main outputs and services of the statistics programme and their utilization of those products. It was found that the identity of the users was clear, that production decisions took their needs into account and feedback on utilization was regularly obtained for methodological work related to international recommendations; parliamentary services; on-line access to databases; customized services to users; and technical cooperation. In contrast, for print publications little reliable knowledge of the identity and needs of the primary users was either available or obtainable at reasonable cost. The efforts and skill mix of the staff, however, were heavily weighted in favour of the compilation and processing of statistics for use in publications.

162. A strategy to shift allocations, over the four-year period of the medium-term plan, to a focus on services determined by user needs and a knowledge of utilization patterns was proposed, consisting of recommendations on, *inter alia*:

(a) On-line access to United Nations statistical databases;

(b) Tracking and responding to needs of users;

(c) Improvement in regional information systems;

(d) Publications policy;

(e) Evaluation of publications;

(f) An integrated presentation of international statistical activities;

(g) Analytical services to departments.

The Committee for Programme and Coordination discussed the report and commended its thorough review of the programme. The Committee agreed with its characterization of the statistics programme as an example of the type of activity that the United Nations did well and which served important needs of Member States.

163. The Committee for Programme and Coordination discussed the report at its thirty-seventh session and commended its thorough review of the programme. The Committee agreed with its characterization of the statistics programme as an example of the type of activity that the United Nations did well and which served important needs of Member States. The Committee endorsed the recommendations in the report on the understanding that the Director of the Statistics Division of the Department for Economic and Social Information and Policy Analysis

would propose an implementation plan and timetable to the 1998 meeting of the Working Group on International Statistical Programmes and Coordination of the Statistical Commission.[2]

In-depth evaluation of the Department of Humanitarian Affairs

164. See paragraphs 40 to 43 above.

Topics for future in-depth evaluations

165. A brief report, reviewing the in-depth evaluations undertaken since 1992 and those currently scheduled and making proposals for future topics of in-depth evaluations,[3] was discussed by the Committee for Programme and Coordination at its thirty-seventh session.[4]

166. The Committee recommended to the General Assembly that the following schedule of in-depth evaluations be approved, keeping in mind the need for desired flexibility to accommodate possible changes that might arise in the context of the reform proposals of the Secretary-General and subsequent decisions that might be adopted by the Assembly:

1998 International drug control

Crime prevention and criminal justice

1999 Disarmament

Electoral assistance

2000 Global development trends, issues and policies, and global approaches to social and microeconomic issues and policies, and the corresponding subprogrammes in the regional commissions (programmes 7.3 and 7.4 of the medium-term plan)

Advancement of women

The Committee noted that, if necessary, it might revert to the consideration of the issue at an appropriate stage.

Triennial review of the in-depth evaluation of the United Nations programme on social development

167. The triennial review[5] restated the findings and recommendation of the in-depth evaluation of the United Nations programme for social development and the decisions of the Committee for Programme and Coordination in relation to them, and reviewed intergovernmental action following the World Summit for Social Development and programme implementation in relation to the findings and recommendations of the in-depth evaluation. The Committee discussed the report at its thirty-seventh session[6] and took note of it.

Notes

[1] E/AC.51/1997/2, annex.

[2] *Official Records of the General Assembly, Fifty-second Session, Supplement No. 16* (A/52/16), paras. 290-294.

[3] E/AC.51/1997/4, annex

[4] *Official Records of the General Assembly, Fifty-second Session, Supplement No. 16* (A/52/16), paras. 295-303.

[5] E/AC.51/1997/5, annex.

[6] *Official Records of the General Assembly, Fifty-second Session, Supplement No. 16* (A/52/16), paras. 308-310.

Appendix I

Significant recommendations in reports of the Office of Internal Oversight Services on which corrective action has not been completed

In paragraph 28 (d) of ST/SGB/273 of 7 September 1994 the Office of Internal Oversight Services (OIOS) is requested to include in its annual report an identification of each significant recommendation in previous reports on which corrective action has not been completed. The following areas in which implementation of OIOS recommendations was not completed by 30 June 1997 were discussed in the previous annual report of OIOS (A/51/432, annex) in the paragraphs indicated.

Oversight function	*Addressee/subject/reference in previous annual reports*	*Status*
Audit	Department of Peacekeeping Operations/United Nations Mission for the Referendum in Western Sahara A/50/459, para. 43, and A/51/432, appendix	Implementation action by the Department of Peacekeeping Operations is still awaited on recommendations contained in two OIOS reports (A/49/884, annex, and A/49/937, annex) concerning an investigation of certain allegations and the audit of United Nations Mission for the Referendum in Western Sahara.
Audit	Department of Development Support and Management Services/Procurement by the Contracts and Procurement Service	Implementation action is awaited on three recommendations contained in the OIOS report concerning procurement handled by the Contracts and Procurement Service (A/50/945, annex). Open recommendations include expediting the re-establishment of vendor files, issuance of instructions clarifying the propriety of assistance involving additional expense and ensuring a vendor's compliance with the terms of the invitation to bid and the subsequent contract award.
Audit	Department of Administration and Management/United Nations Postal Administration A/51/432, annex, para. 102	In the wake of declining operating results and to ensure the long-term success of UNPA, an OIOS report (A/51/897, annex) recommended an independent evaluation of current and alternative modes, including outsourcing, for implementing UNPA mandates. Such an evaluation should consider the "full cost" of operating UNPA, including services and facilities provided free of charge by the United Nations. The Department of Administration and Management has assigned responsibility for the evaluation to the Accounts Division; however, it is too early to expect full implementation.

Oversight function	*Addressee/subject/reference in previous annual reports*	*Status*
Audit	Department of Administration and Management/global cargo and vehicle insurance A/51/432, annex, para. 76	Regarding the recommendations contained in the OIOS report (A/51/307, annex), to date, implementation has been initiated, but not yet completed. An audit of commercial insurance as requested by the General Assembly is in progress and will review the implementation status.
Audit	Department of Administration and Management/outsourcing A/51/432, annex, para. 106	OIOS is still awaiting information from the Department on the implementation status of recommendations contained in the OIOS report (A/50/1005, annex).
Audit	Department of Administration and Management/Electronic Mail A/51/432, annex, para. 97	To date, seven of the recommendations made in the OIOS report on e-mail (A/50/1005) have been implemented. Several others are in process.
Audit	International Tribunal for the Former Yugoslavia/review of 1997 resource requirements	Most of the recommendations in the OIOS report concerning the funding of the Tribunal (A/51/824, annex) were included in the revised budget estimates. Several recommendations regarding, *inter alia*, assessing alternatives to constructing a second courtroom and exploring less expensive field office staffing arrangements have not yet been implemented.
Investigation	Medical Services Division, Office of Human Resources Management/ investigation into the death of a United Nations staff member in Addis Ababa A/51/432, annex, paras. 121 and 122	The Division concurred in those recommendations but expressed concern about the financial implications.
Investigation	Allegation concerning abuse of authority in the United Nations Observer Mission in El Salvador A/50/459, annex, para. 89	In the context of drafting the Code of Conduct for United Nations staff, steps have been taken by the Office of Legal Affairs to reflect concerns expressed by OIOS on the scope of staff rule 104.10 (c). The Office of Legal Affairs has advised OIOS that the staff rules will be amended to achieve consistency with the new Code of Conduct. However, the process is not yet completed.
Evaluation	Reviews of the implementation of recommendations in in-depth evaluation reports are submitted to the Committee for Programme and Coordination three years after that Committee considers the reports.	

Appendix II

Reports of the Office of Internal Oversight Services during the period from 1 July 1996 to 30 June 1997

A. Reports to the General Assembly

Investigation of alleged misappropriation of United Nations assets at the United Nations Gift Centre (A/50/1004)

Management audit of electronic mail at the United Nations Secretariat (A/50/1005)

Management audit of United Nations global cargo and motor vehicle insurance programmes (A/51/302, annex)

Review of the management structure in the civilian staff component of the United Nations Peace Forces (A/51/305, annex)

Annual report for the period from 1 July 1995 to 30 June 1996 (A/51/432, annex)

Investigation of the United Nations access control system (A/51/467)

Inquiry into seminars of the Special Committee on the Situation with regard to the Implementation of the Declaration on the Granting of Independence to Colonial Countries and Peoples (A/51/486, annex)

Audit and investigation of the International Criminal Tribunal for Rwanda (A/51/789, annex)

Report of the Secretary-General on enhancing the internal oversight mechanisms in operational funds and programmes (A/51/801)

Audit of Headquarters catering operations (A/51/802, annex)

Audit of the United Nations Logistics Base at Brindisi (A/51/803, annex)

Review of outsourcing practices at the United Nations (A/51/804, annex)

Review of the United Nations Environment Programme and the administrative practices of its secretariat, including the United Nations Office at Nairobi (A/51/810, annex)

Review of the 1997 resource requirements of the International Tribunal for the Former Yugoslavia (A/51/824, annex)

Review of the programme and administrative practices of the United Nations Centre for Human Settlements (Habitat) (A/51/884, annex)

Audit of the United Nations Postal Administration (A/51/897, annex)

Review of the programme and administrative practices of the secretariat of the International Trade Centre UNCTAD/WTO (A/51/933, annex)

B. Reports to the Committee for Programme and Coordination

In-depth evaluation of the programme on statistics (E/AC.51/1997/2, annex)

In-depth evaluation of the Department of Humanitarian Affairs (E/AC.51/1997/3, annex)

Topics for future in-depth evaluations (E/AC.51/1997/4, annex)

Triennial review of the in-depth evaluation of the United Nations programme on social development (E/AC.51/1997/5, annex)

C. Audit reports (department/audit subject)

Department of Peacekeeping Operations	Liquidation of the United Nations Operation in Somalia (UNOSOM II)
	United Nations Assistance Mission in Rwanda (UNAMIR)
	United Nations Logistics Base at Brindisi
	United Nations Mission for the Referendum in Western Sahara (MINURSO)
	United Nations Angola Verification Mission (UNAVEM III)
	United Nations Office of the Secretary-General in Afghanistan
	United Nations Disengagement Observer Force (UNDOF)
	United Nations Truce Supervision Organization (UNTSO)
	United Nations Military Observer Group in India and Pakistan (UNMOGIP)
	United Nations Verification Mission in Guatemala (MINUGUA)
	United Nations Observer Mission in Georgia (UNOMIG)
	Office of the United Nations Special Coordinator in the Occupied Territories (UNSCO)
	United Nations Preventive Development Force (UNPREDEP)
	United Nations Transitional Administration for Eastern Slavonia, Baranja and Western Sirmium (UNTAES)
	Liquidation of the United Nations Peace Forces (UNPF)
	United Nations Iraq-Kuwait Observation Mission (UNIKOM)
Department of Humanitarian Affairs	Coordinating role of the Department in the field during complex emergencies
Office of the United Nations High Commissioner for Refugees	Country programme in Zaire
	Programmes implemented by the Adventist Development Relief Agency
	Country programme in Mali
	Local committees on contracts
	Country programme in Sri Lanka
	Country asset management system
	Country programme in the United Republic of Tanzania implemented by the Tanganyika Christian Refugee Service

	Country programme in the Sudan
	Country programme in Côte d'Ivoire
	Country programme in Italy
Department of Political Affairs	Committee on Missing Persons
United Nations Special Commission	United Nations Special Commission
Department for Policy Coordination and Sustainable Development	Programme performance of the Department
Department for Development Support and Management Services	Project experts and consultants in the Department
	Project YUG/92/004 in Pakrac, Croatia
	Home leave travel in the Department
United Nations Environment Programme	Travel
	Secretariat of the Convention on International Trade in Endangered Species of Wild Fauna and Flora
	Regional Coordination Unit for the Caribbean, Jamaica
	Use of telecommunications
	Secretariat to the Convention on Biological Diversity
United Nations Centre for Human Settlements (Habitat)	Rental subsidy
Economic Commission for Africa	Secretariat of the Commission
Economic Commission for Latin America and the Caribbean	Secretariat of the Commission
	Subregional Office in Mexico
Economic and Social Commission for Asia and the Pacific	Secretariat of the Commission
Economic and Social Commission for Western Asia	Secretariat of the Commission
International Tribunal for the Former Yugoslavia	Operations of the Tribunal

International Trade Centre UNCTAD/ WTO	Catering services
	Travel agency contract
	Travel
United Nations International Drug Control Programme	Data processing
	Project for the development of drug control structures, human resources and programmes in West Africa
	Project relating to the mobile youth programme for drugs in Kenya
Department of Public Information	United Nations bookshop
	Sale of publications
	Relocation of the United Nations Information Centre, London
Department of Administration and Management	Headquarters catering operations
	United Nations Postal Administration
	Freight-forwarding contracts
	Integrated Management Information System: budget and project performance during the biennium 1994-1995
	United Nations travel
	IMIS security
United Nations Office at Geneva	Catering services
	Shipping operations
United Nations Office at Vienna	Data processing
	Outsourcing of translation services
United Nations Office at Nairobi	Use of telecommunications

D. Investigation reports (department/investigation subject)

Department of Peacekeeping Operations	Allegation of fraud in fresh rations contracting in UNFICYP
	Allegations of irregularities in rations contracts for UNTAES and UNPREDEP
United Nations Relief and Works Agency for Palestine Refugees in the Near East	Allegation of fraud in reimbursement of medical claims
	Internal control procedures for medical reimbursement claims
Department for Development Support and Management Services	Allegation of violation of United Nations rules concerning active involvement in national political activities

United Nations Centre for Human Settlements (Habitat)	Allegation of conflict of interest
International Trade Centre UNCTAD/WTO	Allegation of fraud Internal control procedures
United Nations Population Fund	Abuse of sick leave
Department of Administration and Management/ Office of Legal Affairs	Allegation of misuse of the United Nations name
Department of Administration and Management	Allegation of misuse of United Nations premises Improvement of programme delivery of translation services Allegedly false documentation submitted by a United Nations aviation vendor Allegations of procurement irregularities in relation to aviation contracts and attempted manipulation of the United Nations, and in relation to aviation contracts by a vendor Allegations involving United Nations aviation contracts Alleged waste of resources and alleged procurement irregularities in United Nations aviation contracts United Nations aviation contracts
United Nations Office at Geneva	Allegations of violation of United Nations rules by staff members
United Nations Office at Vienna	Report on allegations concerning translation services at the United Nations Office at Vienna

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Strengthening of security and cooperation in the Mediterranean region

Report of the Secretary-General

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I. Introduction

1. In its resolution 51/50 of 8 January 1996, the General Assembly encouraged all States of the Mediterranean region to favour the necessary conditions for strengthening the confidence-building measures among them, by promoting genuine openness and transparency on all military matters and participation, *inter alia*, in the United Nation system for standardized reporting of military expenditures, as well as providing accurate data and information to the United Nations Register of Conventional Arms. It also invited all States of the region to address, through various forms of cooperation, problems and threats posed to the region, such as terrorism, international crime and illicit arms transfers, as well as illicit drug production, consumption and trafficking, which jeopardized the friendly relations among States, hindered development of international cooperation and resulted in the destruction of human rights, fundamental freedoms and the democratic basis of pluralistic society.

2. In resolution 51/50, the General Assembly also encouraged the continued widespread support among the Mediterranean countries for the convening of a conference on security and cooperation in the Mediterranean as well as the ongoing consultations that would create the appropriate conditions for it. The Assembly requested the Secretary-General to submit a report on means to strengthen the security and cooperation in the Mediterranean region.

3. With a view to facilitating the preparation of such a report the Secretary-General addressed notes verbales to all Member States, requesting their views on the subject matter.

4. As at 6 October 1997, five Governments had replied and their responses are reproduced in section II below. Any replies or notifications received subsequently will be published as addenda to the present report.

II. Replies received from Governments

Algeria

[Original: French]
[8 September 1997]

1. Algeria fully supports the objectives and the actions envisaged by the General Assembly in its resolution 51/50 of 10 December 1997 concerning the strengthening of security and cooperation in the Mediterranean region.

2. Algeria has always demonstrated an unwavering attachment to the Mediterranean and a constant commitment to the cause of bringing the Mediterranean countries closer together by creating a zone of stability and collective security and encouraging a space for development and shared prosperity. Against this background, Algeria has participated and has been deeply involved in all the region's own initiatives, in particular the implementation of the Barcelona process, the purpose of which is to establish a framework for a renewed partnership.

3. Following the Barcelona Conference in November 1995, which laid the bases for new relations between the two shores of the Mediterranean, the second Euro-Mediterranean conference, held at Valletta, facilitated the calm evolution of this process and gave a political impetus to the dynamics of the partnership.

4. The regional political context in which this conference took place confirmed once again the correctness of a global, balanced and multidimensional approach. As coordinator of the group of Arab Mediterranean States, Algeria made its contribution to the perpetuation of this process, which constitutes a fundamental political achievement.

5. For Algeria, the political and security partnership depends on a correlation between security and stability and the necessity of economic and social development. The selected approach is one of step-by-step progress and pragmatism in the implementation of confidence-building measures, an approach which takes due account of the evolution of the political and security situation in the region. These measures are intrinsically linked to the just and lasting resolution of conflicts, the peaceful settlement of disputes, concrete and effective measures of disarmament through the accession of all the States of the region to the multinational agreements on the prohibition of weapons of mass destruction (the Non-Proliferation Treaty, the Chemical Weapons Convention, the Biological Weapons Convention, etc.), and to the placement of all nuclear installations under international control.

6. In addition, the political and security partnership should in Algeria's view be suffused by a common political will of the riparian States to present a united front to common challenges by complying with the principles of international law, in particular non-interference in the internal affairs of another State, non-use of force or threat of use of force, and respect for sovereignty. Any such cooperation can only help to strengthen democracy and consolidate the rule of law in the region, and to eliminate new kinds of threat to peace and security, in particular disruptive and transnational phenomena.

7. Terrorism is a universal phenomenon threatening the democratic foundations of States, and it demands a policy of prevention and sustained cooperation among all the

countries of the Mediterranean. The task therefore is to intensify and strengthen cooperation against terrorism, which remains a major challenge to be taken up by all the Euro-Mediterranean partners and by the international community.

8. Within the framework of the economic and financial partnership, Algeria has emphasized the need to reduce the development disparities between the two shores and to give particular priority, on the one hand, to a just and equitable distribution of the financial flows available to the Mediterranean partners and, on the other hand, to the need for debt relief and conversion. This clearly means introducing new economic relationships and promoting a partnership for co-development. In short, the free-trade area must not constitute an end in itself but a means of attaining the more ambitious goal of a zone of shared prosperity.

9. Where the social, cultural and human partnership is concerned, Algeria believes that the establishment of a free-trade area entails action to deal with the question of mobility of the human element, in particular by improving the conditions for travel between the two shores. Lifting the constraints on freedom of travel and settlement will facilitate improved exchanges between people and greater understanding among the coastal societies.

10. Algeria's contribution to the rapprochement of the peoples of the Mediterranean was given concrete form by the convening in Algiers on 11 and 12 July 1997 of the fourth regular session of the Mediterranean Forum. The Algiers meeting marked an important stage in the consolidation and invigoration of this important framework for dialogue and cooperation among Mediterranean countries. It also confirmed the usefulness of this framework and the commitment of all the member countries to the Forum.

Jordan

[Original: English]
[17 June 1997]

1. Jordan is totally committed to the achievement of the general aims of resolution 51/50 and fully embraces the lofty ideals embodied in it.

2. It is Jordan's view that paragraphs 7 and 8 of the resolution should reflect explicitly the real concerns that the international community has expressed vis-à-vis the proliferation of weapons of mass destruction. These paragraphs, therefore, should include the explicit call upon all States of the Mediterranean region that have not yet adhered to the Nuclear Non-Proliferation Treaty and the Conventions banning chemical and biological weapons, to do so, with a view to the ultimate goal of creating a Mediterranean region free from such weapons of mass destruction.

Lebanon

[Original: French and Arabic]
[4 June 1997]

1. With regard to paragraph 12 of resolution 51/50, in which the General Assembly requests the Secretary-General to submit a report on means to strengthen security and cooperation in the Mediterranean region, attention is drawn to the final document of the Malta Conference on Euro-Mediterranean partnership, together with the letter with its annexes, of the Minister of Foreign Affairs of Lebanon, in which he expresses reservations regarding the paragraph concerning combating terrorism.

2. Lebanon endorses the addition of the issue of support for security and cooperation in the Mediterranean region and believes the resolution should include the following:

(a) A clear reference to the difficulties faced by the peace process in the Middle East as a result of the Israeli rejection of that process, which was based on the Madrid Conference and the principle of land for peace, and in accordance with Security Council resolutions 242 (1967), 338 (1973) and 425 (1978). The resolution should call for efforts to support the process on the above-mentioned bases;

(b) Paragraph 8 should include the submission of nuclear installations to international inspection;

(c) Paragraph 9 on strengthening cooperation in combating all forms of terrorism should include the words "because terrorism constitutes a violation of human rights and threatens peace, security and stability in the region and in the world". Moreover, Lebanon stresses the need to recognize the legitimate right of people living under foreign occupation, including their right to resist foreign occupation, which violates their human rights and in order to liberate the occupied national territory. Lebanon cannot overlook the fact that over 10 per cent of its national territory in southern Lebanon and the western Bequaa valley has been occupied by Israel since 1978, in defiance of Security Council resolution 425 (1978). The occupying forces and their proxies subject the civilian population to practices that are in violation of their human rights and in contravention of the provisions of the Fourth Geneva Convention (1949) and the Fourth Hague Convention (1907), aggravated by almost

daily attacks against the sovereign territory of Lebanon and the use of prohibited weapons against civilians. Furthermore, scores of Lebanese civilians are held in detention centres in the occupied parts of southern Lebanon and Israel under the most inhuman and insalubrious conditions. Lebanon therefore believes there is a need to define clearly in a resolution the difference between terrorism, which Lebanon condemns and is indeed a victim thereof, and the legitimate resistance against military targets of the occupying force in the occupied territory;

(d) A paragraph should be added calling for cooperation in areas of common interest between the United Nations and the Euro-Mediterranean partnership inaugurated at Barcelona in 1995.

Malta

[Original: English]
[6 August 1997]

1. As a co-sponsor of the original General Assembly resolution on the strengthening of security and cooperation in the Mediterranean region and a principal sponsor of resolution 51/50, which was unanimously adopted by the General Assembly on 10 December 1996, Malta believes that the implementation of the provisions of the resolution will enhance efforts by Mediterranean countries to give the region a much needed respite from the tension, conflicts, upheavals and uncertainties that have engulfed the region for many centuries.

2. Up to a few years ago the Mediterranean Sea was still the potential battleground for East/West confrontation. It was here that the fate of Europe, and indeed that of the whole world, was put repeatedly through tremendous pressures, and where the lives and livelihoods of the peoples around the shores of the Mediterranean were ever at stake. Yet, notwithstanding the demise of the cold war syndrome, the Mediterranean today continues to be confronted with problems and new threats as well as with common and multiple challenges.

3. The Mediterranean region has its own particular and unique characteristics. It has been generally observed that the Mediterranean is more a region of contrasts than of similarities. The movement of people, the movement of faiths and the movement of ideas has always meant contact, often resulting in direct conflict, leaving no ground for achieving any appreciable degree of stability, development, peace and prosperity in the Mediterranean region.

4. In the midst of all these destabilizing factors, the new Labour Government of Malta, enjoying the confidence of the absolute majority of the Maltese people, as manifested in the general election of October 1996, has adopted a foreign policy that is dictated by Malta's particular geo-strategic position, by the political situation prevailing in the region as well as internationally, and by the pattern and orientation of commercial relations that Malta has developed throughout the years. This pragmatic approach results from the consideration that Malta's foreign policy incorporates all political activity which extends beyond its territorial limits and concerns, events and developments and which, though not restricted to established national borders, directly and indirectly influence the quality of life of the Maltese people.

5. With a view to promoting peace and strengthening security in the Mediterranean region, the new Government of Malta has time and time again committed itself to a foreign policy that is based on the values of democratic governance, on the upholding of fundamental human rights, on the peaceful settlement of disputes and on a policy that is in favour of disarmament and strongly opposes military aggression, and the manufacture, distribution and proliferation of all types of armaments and weapons, especially weapons of mass destruction, including nuclear, chemical and biological.

6. The Government continues to believe that the policy of neutrality and non-alignment entrenched in Malta's Constitution since 1987, should continue to play a decisive and influential role in the formulation of Malta's foreign policy, an approach that will in itself afford Malta a certain degree of security and contribute towards security on a larger and wider scale in the whole Mediterranean region.

7. The Government of Malta is following a policy that fully acknowledges, respects and tolerates diverse religious beliefs and different cultures. It is a policy that opposes all forms of nationalism, as well as all forms of extremism, be they political, religious or otherwise. Malta is of the view that because of their special role in civil society, religious movements have an important role to play in today's ethical discussions on tolerance and peaceful coexistence. Historically, they have formed the moral and ethical foundation of many societies. Religious leaders have a vital role to play as partners in dialogue with politicians, amongst others, in their task of addressing the key issues of our times. Their cooperation with political institutions and civil societies is vital both on a national, regional and international level. They are key players in the search for viable models of tolerance, peaceful coexistence, cooperation and hence security. Though steeped in Christian

tradition, Malta also went through several centuries of Islamic presence. Malta is endowed, like no other part of the region, with a heritage that pledges its vocation and commitment to be at the service of the Mediterranean community.

8. Malta believes that the perceived threats to stability, and thus to security, in the Mediterranean are more than before of a non-military nature. Non-military threats to security could be political, environmental, economic or social in nature.

9. The widespread flow of armaments in the Mediterranean region remains for Malta a source of deep concern. Malta favours policies and measures that lead to disarmament and militate against the proliferation of weapons of mass destruction. Malta is a State party to several major conventions and treaties relating to disarmament. The geopolitical realities of Malta make it sensitive to the fact that there are still countries in the Mediterranean region that have not yet adhered to a number of disarmament regimes including the Non-Proliferation Treaty and the Chemical Weapons Convention. In the interest of security and stability in the Mediterranean, it is the Government of Malta's hope that all Mediterranean countries adhere to these and other disarmament conventions and treaties in the belief that through their implementation, a new aura of confidence and trust will emerge in the region.

10. In the coming years Malta's vocation will be geared to tackle the question of security in the Mediterranean by contributing towards greater cooperation and more understanding among and between all the countries in the region. Working on the concept of cooperative security, maximum use will be made of non-military mechanisms and structures, and less of military or defence structures. Preventive diplomacy, confidence-building measures, an open and transparent political dialogue and cooperation exchanges at the bilateral and multilateral levels in all possible spheres will constitute Malta's tools for its contribution in guaranteeing peace, stability and development in the Mediterranean region.

11. The ultimate objective of Malta's Mediterranean policy is the transformation of this region into a politically stable, and an economically prosperous, demilitarized, nuclear-free zone. The safeguarding of peace and the promotion of closer and sustained cooperation among Mediterranean countries should enable the enjoyment of complete sovereignty by all the peoples of the region, free and protected by established and accepted territorial borders and adhering to a mutual policy of non-interference and non-intervention in the internal affairs of each other.

12. Malta remains particularly concerned at the ever-widening demographic gap in the Mediterranean between the relatively affluent and ageing North and an economically disadvantaged and youthful South.

13. The glaring disparities in levels of the economic and social well-being between the northern and southern shores of the Mediterranean region are further exacerbated by what Malta has often described as "soft" security risks. These include ethnic conflicts and disputes arising out of the neglect of the rights of persons belonging to national minorities; border disputes that could lead to armed conflicts; the proliferation of weapons of mass destruction and their delivery systems; international terrorism; organized crime and illegal trafficking in arms and drugs; money-laundering, contraband and clandestine migration; and transnational environmental degradation.

14. This grave situation confronting the Mediterranean region requires an all-out effort by the Mediterranean countries themselves to intensify the process of dialogue and consultation with a view to resolving the problems existing in the region and to eliminating the causes of tension and the consequent threat to peace and security. To achieve these objectives the new Government of Malta will be pursuing the paths offered by all opportunities resulting from initiatives, above all by the Mediterranean countries themselves, that take into account both the European and the Mediterranean components of Malta's foreign policy.

15. Unfortunately, the promotion and implementation of new forms of cooperation in the Mediterranean region have often been stalemated because of both latent and overt North/South and East/West tensions. Consequently, it is the constant objective of the Government of Malta to promote a process of dialogue and cooperation in the region, both through unilateral action the Government can take, as well as through its encouragement of and, where appropriate, participation in projects and programmes of conflict resolution, confidence-building and practical cooperation. Regrettably, every serious attempt made so far towards a structured linkage and, it is hoped, towards dialogue on a more regular basis, has failed up to now, and there seems little hope of success in this respect in the foreseeable future.

16. If one were to give a cursory glance at the present scenario in the Mediterranean, one would note that the progress achieved during recent years in the Middle East peace process, while very encouraging, still presents the Mediterranean with a formidable challenge. Tension in the Mediterranean cannot be dispelled unless and until a permanent solution to the Middle East problem is found.

17. The devastation and the destruction, as well as the human tragedy resulting from years and years of unrelenting ethnic hatred, witnessed in the fragmented former Yugoslavia; the division of Cyprus; the sanctions imposed by the Security Council on the Libyan Arab Jamahiriya, which continue to have far-reaching effects on neighbouring countries; the recent turmoil in Albania; and political instability in some countries because of rampant extremist fundamentalist elements, these are matters of great concern to all the littoral States of the Mediterranean.

18. In this context, the Government of Malta is therefore giving its foreign policy a European approach and a Mediterranean approach. Malta firmly believes that this twofold approach permeating around the potential cooperation and collaboration between and among all Mediterranean countries must recognize the indivisible character of security in the Mediterranean, thus promoting the economic and social development of all peoples of the region.

19. In defining its Euro-Mediterranean policy, the Government of Malta keeps this important consideration constantly in mind. This in turn permits the recognition of, on the one hand, the urgent need and potential that exists for the promotion of a comprehensive process of cooperation at both the strictly intra-Mediterranean, as well as the wider Euro-Mediterranean dimensions. On the other hand, it also demonstrates the constraints that accompany any such process of Euro-Mediterranean cooperation.

20. In April 1997, the Second Ministerial Conference of the Euro-Mediterranean Partnership was held in Malta. This event and its outcome provide a telling manifestation both of the challenges that are facing the Mediterranean and of the role that neutral Malta is playing in the region — a direct response to the very specific and unique geopolitical factors that currently exist in the surrounding region. Far from being ideologically motivated, Malta's policy of active neutrality therefore positions it adequately to execute the roles of a regional peace broker and/or interlocutor depending on the political realities that happen to manifest themselves at any particular time.

21. The unanimous decision to hold the Second Euro-Mediterranean Conference in Malta was therefore a logical and welcome one. In addition to offering the peaceful setting where cooperative dialogue could take place, the Conference also provided the Government of Malta with an opportunity to demonstrate the constructive contribution it can make towards nurturing greater cooperation between Europe and the Mediterranean countries.

22. Malta believes that the Euro-Mediterranean process is making a valid contribution towards resolving the problem of the ever-widening economic and social gap that for many years has been one of the destabilizing factors of the region. Malta feels that the European Union's initiative provides and offers new and innovative opportunities to reinforce the much needed cooperation and collaboration between and among all participating States.

23. At the Malta Euro-Mediterranean Conference, the Government of Malta proposed the establishment of a Euro-Mediterranean parliamentary partnership — a mechanism that would enable all participating countries regularly to discuss issues of common interest in anticipation of drawing up a programme of work and activities based on the principles spelled out in the Barcelona Declaration.

24. In promoting the idea of a parliamentary partnership — a council of the Mediterranean — Malta has always envisaged the creation of a permanent forum that would help develop and reinforce political cooperation between peoples with so many different languages, culture, religions and ideologies. Such a permanent parliamentary institution would serve as a forum where politicians would meet on a regular basis to discuss problems emanating in the region, evaluate the difficulties faced in the resolution of such problems, explore potentialities of cooperation that exist and map out common political objectives. In this context, Malta has offered its facilities to host such a Euro-Mediterranean parliamentary partnership, in the belief that Malta's geo-strategic position could serve as a meeting place for the active involvement of parliaments in this partnership process that would also assist in bringing the discussion closer to the Mediterranean peoples themselves.

25. Learning from past experience, a number of basic considerations would need to be identified if any process for Mediterranean dialogue is to be launched with success. One of these is the question of participation. In this regard, Malta is fully aware that, in any process of regional consultation, all countries in the Mediterranean region should be given the opportunity to participate on an equal basis and from the very outset. No less important to the issue of participation is that of content. It is necessary to circumscribe, at least at the initial stages, the content of a Mediterranean dialogue to more manageable subjects, some of which could be taken up at the subregional level.

26. Tackling such issues pragmatically not only has the intrinsic merit of any collective effort to seek solutions to very real and shared problems, but it contributes both directly and indirectly to an amelioration of the security situation — directly by reducing the areas where causes of

friction and suspicion could arise; indirectly by inducing those habits of trust and mutual comprehension that in themselves predispose those involved to venture into more intricate areas of cooperation.

27. It is in this spirit that the Deputy Prime Minister and Minister of Foreign Affairs and the Environment, Dr. George Vella, in his address to the XIIth Ministerial Conference of the Movement of Non-Aligned Countries, meeting in New Delhi in April 1997, proposed the revival of the Group of Non-Aligned Mediterranean Countries. Malta believes that the Group could make a significant contribution towards the strengthening of peace, security and cooperation in the Mediterranean region and thus complement what is already taking place in other forums.

28. It is also in this spirit that ever since the 1975 Helsinki Final Act, the Government of Malta has continuously underscored the linkage that exists between security and stability in Europe and security and stability in the Mediterranean inasmuch as this forms an integral part of the notion of the indivisibility of security. The Maltese Government strongly believes in the role the Organization for Security and Cooperation in Europe (OSCE) could and can play in the future interests of peace and security in the Mediterranean, and therefore supports its activities and initiatives. Within OSCE, Malta together with the other participating States, has declared its intention of maintaining and amplifying the contacts and dialogue as initiated by the Conference on Security and Cooperation in Europe with the non-participating States to include all the States of the Mediterranean, with the purpose of contributing to peace, reducing armed forces in the region, strengthening security, lessening tensions in the region and widening the scope of cooperation, ends in which all share a common interest, as well as with the purpose of defining further common objectives.

29. Leading up to the Lisbon Summit of OSCE and beyond, Malta kept stressing that the setting up of the informal open-ended contact group and the change in nomenclature to Mediterranean Partners for Cooperation would reflect the changing political focus in Europe and the shift of approach international security organizations were adopting in relation to the Mediterranean region. This new impetus on Mediterranean issues has been conducive to more substantial concrete work to be registered in the context of the Mediterranean dimension of the Common and Comprehensive Security Model for Europe for the Twenty-first Century. Malta reiterates its conviction that it would be in the interest of all participating States that the Mediterranean Partners for Cooperation are given access and facilities to attend meetings of the Permanent Council of OSCE and the Forum for Security Cooperation.

30. Malta is also very active in the Committee of Ministers' Deputies of the Council of Europe's Ad Hoc Working Party on Cooperation in the Mediterranean Basin. Malta is also a member of the North/South Centre in Lisbon and has also advanced a number of proposals to strengthen Mediterranean cooperation, in particular, through the Council of Europe itself and the European Commission.

31. In spite of perceived difficulties, Malta also attaches great importance to the eventual convening of a conference on security and cooperation in the Mediterranean — a "CSCM". Malta believes that such a process should not be detached completely from the parent OSCE, but should rather be a "quasi-autonomous regional extension" of the same Organization. Such a process would project Europe towards the countries of the Mediterranean region so that it could treat the vast range of problems of the region with the same commitment with which OSCE has up to now addressed analogous problems in mainland Europe.

32. To complement these efforts and initiatives in these forums, as well as in others such as the Mediterranean Forum and the Mediterranean Action Plan, the new Government of Malta intends to make maximum use of its contacts and available diplomatic representation at the United Nations and other international forums to promote its political objective of the Mediterranean Sea as an area of peace and stability.

33. Malta strongly believes that the United Nations is still the principal world institution that offers all Member States a lasting, multilateral and action-oriented cooperative dialogue among States of the region. In this context, the Government of Malta feels that the United Nations system should be better utilized to increase and enhance a more active interchange and collaboration by Mediterranean countries with the Office of the Secretary-General. Malta therefore intends to keep the questions relating to the Mediterranean high on the international agenda, thus promoting a heightened awareness and greater interest in the issues that still beleaguer the Mediterranean region.

34. The Government of Malta feels that the United Nations should be more involved in monitoring the situation in the Mediterranean region and in promoting and strengthening economic, social, cultural and environmental cooperation in the region. As a point of departure, Malta would like to see that the Political Affairs Division of the United Nations dedicates more time and attention to the situation emanating in the Mediterranean region and coordinates all actions, measures and initiatives being undertaken in a number of fields by the United Nations system as a whole. In this

regard, the establishment of a Mediterranean Desk within the Division could perhaps facilitate contacts and assume a more direct role in the implementation of the provisions of resolutions adopted by the General Assembly and decisions taken in other international and regional, if not subregional forums, where the Mediterranean dimension is the focal issue under consideration.

35. It is also the view of the Government of Malta that the annual report submitted for consideration to the First Committee of the General Assembly should include a summary of the activities of the various bodies, organizations and programmes that are being implemented in favour of Mediterranean countries.

36. Malta, through its new Government, has solemnly committed itself to the creation of a more favourable climate and to the relaxation of tensions that continue to aggravate the situation in *mare nostrum*. Malta, which for many centuries has itself been the witness to and involved in acts of war and strife in endless warfare and bloodshed emanating from the Mediterranean region, has dedicated itself to contributing to the transformation of the Mediterranean into a region of stability, security and cooperation.

37. Malta would also welcome a broader role for the United Nations Information Centre in Rome through a greater emphasis on issues relevant to the countries in the Mediterranean region, as well as through a wider dissemination of information about United Nations/Mediterranean activities.

38. Malta is eager to pursue all available avenues and all concerted approaches leading to its declared objectives of peace, stability and prosperity in the Mediterranean. As it has done in the past, Malta will not be found lacking in drive, in initiative or in its commitment in this policy objective, which will ensure a better future for our societies.

Russian Federation

[Original: Russian]
[10 June 1997]

1. The Russian Federation regards the strengthening of security and cooperation in the Mediterranean as one of the priority tasks of the international community.

2. The situation in the Mediterranean is characterized by the presence of diverse and contradictory factors. The region remains an area of increased political instability. The gap in socio-economic development between the countries of the south and north of the region is widening, there remains in the area a critical mass of "combustible material" — the Middle East conflict and the as yet unsettled Cyprus problem, and there is a high level of saturation with weapons, accompanied by the danger of proliferation of weapons of mass destruction. A new generation of challenges is becoming ever more acutely felt — religious extremism, terrorism, narcotics trafficking, unlawful migration. The situation in the Mediterranean is negatively affected, in view of its geographical interconnectedness, by the domestic conflicts in a number of Balkan countries and hotbeds of inter-ethnic contradictions in the Black Sea basin.

3. At the same time, positive trends are also apparent in the Mediterranean: in particular in the context of what is known as the "Euro-Mediterranean process", a foundation has been laid for multilateral dialogue on an ongoing basis, and new mechanisms for cooperation in the economic, humanitarian and other spheres have emerged.

4. The Russian Federation consistently advocates a strengthening of the constructive role of the United Nations in resolving the political, economic and environmental problems of the region and in instituting productive cooperation among the Mediterranean States. The strengthening of security in the region calls for a comprehensive approach that includes parallel steps to settle conflict situations and eliminate hotbeds of tension, reduce the level of armed presence, strengthen confidence among the Mediterranean States themselves and their mutual understanding with other members of the international community, and develop economic cooperation in the region and with "third countries".

5. The total range of problems in the region, many of which extend across boundaries, can be resolved only by intensifying the efforts of all the contiguous States bordering the Mediterranean, whose national interests are directly affected by Mediterranean factors. This could be enhanced by a more substantial involvement of the United Nations in the regional aspects of cooperation.

6. Broader forward-looking approaches are also called for, in particular the development of common political principles for support by the United Nations for regional mechanisms for ensuring peace and security.

7. An increased role of the United Nations is also called for in ensuring mutual complementarity of economic interests and in encouraging practical cooperation of the Mediterranean countries with adjacent regions, in particular with the States of the Black Sea basin. If effect could be given to the concept of the "greater Mediterranean", based on a system of multifaceted cooperation among the States of the Mediterranean and Black Sea basins, and also of the

Middle East, that would open the way to the transformation of the region into a zone of peace, stability and cooperation.

8. An important role in instituting economic cooperation among the States of the Black Sea and Mediterranean basins could be played by the Economic Commission for Europe.

9. The establishment of cooperation on economic and environmental projects in the context of Black Sea economic cooperation and the Euro-Mediterranean (Euromed) programme of the European Union would open up extensive possibilities.

10. A considerable contribution to strengthening security in the Mediterranean could be made by the Organization for Security and Cooperation in Europe, which has accumulated sound experience in drawing up and implementing joint steps by participating countries to strengthen security and cooperation in the military-political, economic, humanitarian and other spheres that could also be drawn on for resolving Mediterranean problems.

11. Nor has the idea of convening a conference on security and cooperation in the Mediterranean, which would make it possible to take a close look at the region's problems, and indicate specific ways of resolving them, drawing on the resources and capabilities of a broad range of States interested in the crisis-free development of the Mediterranean, lost its topicality.

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Sectoral policy questions: business and development

Entrepreneurship and privatization for economic growth and sustainable development

Report of the Secretary-General

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I. Introduction

1. The present report is submitted in response to General Assembly resolution 48/180 of 21 December 1993 on entrepreneurship and privatization for economic growth and sustainable development, in which the Assembly requested the Secretary-General, *inter alia*, to prepare a biennial report, in consultation with the heads of relevant organs, organizations and programmes of the United Nations system, on policies and activities related to entrepreneurship, privatization, demonopolization and administrative deregulation.

2. The first report of the Secretary-General on the question (A/50/417) was submitted to the General Assembly at its fiftieth session. The present report, the second one on the issue, has been prepared by the Department of Economic and Social Affairs, which has been designated as the lead agency for its preparation. As at 28 May 1997, 13 organizations[1] out of the 29 requested, had provided inputs to the report. The richness of the materials collected is indicative of the importance the United Nations system attaches to the promotion of entrepreneurship and privatization, as well as of the wide range of activities where such promotion can be applied.

3. In view of the large volume of contributions as well as the variety of activities among and within the United Nations system concerning entrepreneurship, privatization, demonopolization and administrative deregulation, the present report has been organized according to theme, rather than by institution, and is analytical in character, with special emphasis on developing economies and those in transition from centrally planned to market-based economies.

II. Background to entrepreneurship

4. The degree of entrepreneurship prevailing in a country and the extent to which the potential for business creation is allowed to be realized is one of the determining factors in the economic growth of a society. Experience shows that the best results in entrepreneurial development are attained with programmes to promote and train entrepreneurs that are linked to support services with direct help to the potential entrepreneur in accessing finance, technical, managerial and marketing advice, and suitable physical facilities. There is no complete consensus on the validity of either the selection tests for potential entrepreneurs nor the exercises used for enhancing entrepreneurship traits, but results of entrepreneurship development programmes using those approaches have lent support to the view that the behavioural characteristics of persons need to be taken into account in screening potential entrepreneurs.

5. Although the extent and range of entrepreneurship differs from country to country and there are clear indications that there are far more potential entrepreneurs in some societies than in others (mostly among communities of migrants or sometimes after the ravages of war), even in the most traditional and static societies there are those with the characteristics needed to be entrepreneurs. There is abundant evidence that even in those communities there are significant prospects for business development if the environment is conducive to such initiatives.

6. The international conferences of the 1990s recognized the crucial role of the private sector, together with other actors of civil society, in achieving goals of economic, social and environmentally sound development. Agenda 21 looked at ways to strengthen the role of business and industry in sustainable development (chap. 30). The World Summit for Social Development addressed a number of recommendations to business enterprises for achieving social development goals. The business community participated closely in the United Nations Conference on Human Settlements (Habitat II) through, for instance, the World Business Forum. United Nations organizations are engaged in strengthening their relations with the private sector. In July 1997, the Secretary-General announced a number of steps in that direction (see A/51/950).

III. Development of small and medium-sized enterprises

7. The United Nations system has, during the period from 1995 to 1997, carried out a range of activities designed to support entrepreneurial development and the strengthening of the private sector in the developing countries and in countries with economies in transition. Most of the direct assistance projects have been in support of small and medium-sized enterprises and of institutions in the public and private sectors that can provide help to new and existing small businesses.

8. Various United Nations agencies have used different approaches. The International Labour Organization (ILO), for instance, has pioneered demand-led services for small and micro-enterprises that can be offered at low cost by the private sector and that can help entrepreneurs reach and service new customers, develop better communications with clients and suppliers and access commercial information.

The United Nations Industrial Development Organization (UNIDO), for its part, provides a broad range of services to help strengthen private sector representative organizations so that they can offer effective advisory and training services to their private sector members, especially small and medium-sized enterprises. As business incubators offer operating space and support services to small businesses, UNIDO undertook in 1995 a survey of 78 business incubators in Brazil, China, the Czech Republic, Mexico, Nigeria, Poland and Turkey and published *The Impact of Business Incubation Systems on Development in Industrializing Countries*.

9. One of the most effective programmes in the area of entrepreneurship and business promotion developed by the United Nations is the technical cooperation project for promoting entrepreneurship (EMPRETEC) programme, started in 1988 in Argentina and, by 1997, operating in 10 countries in Latin America and Africa. EMPRETEC is now a United Nations technical cooperation programme implemented jointly by the Department of Economic and Social Affairs and the United Nations Conference on Trade and Development (UNCTAD). It promotes entrepreneurship and provides assistance to respond to the changing needs of small entrepreneurs. EMPRETEC plays a major role on two levels — on the national policy level by the creation of legal and institutional infrastructures supporting the development of small and medium-sized enterprises and on the capacity-building level of both national institutions and individual enterprises. By working closely with Governments, business organizations and small and medium-sized enterprises, EMPRETEC has helped influence national policies in the areas of taxation, insurance and labour law, and has helped create business support centres, associations, cooperatives and international networks. Some business support centres are fully privately run (e.g., in Venezuela), while some are fully public (e.g., in Nigeria). EMPRETEC Ghana became a fully fledged private non-profit organization in 1994, and its activities are now financed by bilateral funds from the Governments of the United Kingdom of Great Britain and Northern Ireland and the United States of America, the European Union and two leading Ghanaian banks. The fundamental task of the programme is to establish in each country an institutional base of public-private sector partnerships that will support the creation, development and expansion of small and medium-sized enterprises. The experience is that full public-private partnership programmes (e.g., Ghana and Uruguay) are more successful than in cases where the programme lacks active support from both sectors.

10. Small and medium-sized enterprises face major difficulties in all countries. They lack access to finance and sources of technology and encounter problems in marketing their output. Some developing countries (e.g., India and Pakistan) have tried to support small and medium-sized enterprises by imposing quotas on lending banks relating to the proportion of their loans that must go to those enterprises, or by laying down a percentage of government and public procurement from the enterprises, or even by reserving some products for manufacture only by small and medium-sized enterprises. Those measures, while well intentioned, serve to distort market forces.

11. Governments have not been very successful in the past in providing support services to small and medium-sized enterprises in the form of training, technical, management and marketing advice and assistance and financial help. The public agencies and promotional institutions that have been set up throughout the developing world to assist those enterprises have had limited impact. They have suffered from government interference resulting in weak management and staffing and have gained the confidence of only a small number of the small and medium-sized enterprises that really need help. In most developing countries, the majority of small and medium-sized enterprises have not benefited from such government-supported agencies.

12. In recent years, support services have been offered not only by central public support institutions but also by regional and local bodies, chambers of commerce, business associations, universities, research and sectoral institutes (e.g., on technology), financial institutions and private consultants (under special arrangements, with government funding). The limited experience of those efforts shows that the solution to the provision of support may lie in public-private cooperation.

13. The United Nations system and other donors have recognized that support services are needed to foster the growth of formal small and medium-sized enterprises. Some United Nations agencies have focused particular attention on this sector, seeing in it the true expression of domestic entrepreneurship development. One major regional initiative supported by the United Nations Development Programme (UNDP) in Africa is the Enterprise Africa Programme, which will be implemented in 1997. Over the years, the Regional Bureau for Africa has supported a number of programmes relating to small and medium-sized enterprises and the Enterprise Africa Programme is an attempt to bring those efforts together into a regional programme, drawing upon best practices and experiences from the previous programmes. The programme is intended to operate as a facilitator and coordinator of small and medium-sized enterprise activities in the region. It will work closely with existing African institutions, private sector companies and

non-governmental organizations in the implementation of activities.

14. Another related area in which UNDP has been active is support for setting up business incubators, which provide assistance in premises and services for start-up and expansion of small enterprises. In collaboration with the Economic and Social Commission for Western Asia (ESCWA), UNDP organized in 1996 a regional seminar in Beirut on the role of business incubators in economic development in the Middle East, with a wide diversity of participants from the region. In Tunisia, for example, a national business incubator programme has been initiated by UNDP in collaboration with the national authorities to establish such business incubators in different regions of the country, focusing on creating new enterprises and high-technology businesses.

15. The Regional Bureau for Europe and the Commonwealth of Independent States of UNDP, which deals with economies in transition, has implemented a number of activities aimed at promoting private sector development in the region. One of its activities has been a subregional small and medium-sized enterprise programme, with four participating eastern and central European countries. Based on the experiences and successes of that programme, a new and comprehensive small and medium-sized enterprise programme has been developed for the 1997-1999 cycle. The target enterprises of this programme are start-up, micro-, small and medium-sized enterprises, ranging from 1 to 500 employees. Each participating country will choose what size of enterprises should be the target group of its national project and then request services accordingly from the regional programme. During its first three years, the project is expected to serve a minimum of 10 countries in the region.

16. In 1995, ILO selected the topic "General conditions to stimulate job creation in small and medium-sized enterprises" for inclusion in the agenda of the 1997 session of the ILO Conference. In another parallel move, in 1996, ILO convened a biennial enterprise forum, with 600 participants from 99 countries, under the general theme "Promoting social progress and competitiveness in a global economy". Those taking part included entrepreneurs, managers of large enterprises, senior government officials and representatives of employers and trade unions, business schools and universities. There was an urgent appeal from entrepreneurs to help foster an enabling environment for enterprises to create jobs.

17. UNCTAD has given high priority in both policy research and technical assistance activities to the promotion of entrepreneurship and small and medium-sized enterprise development. UNCTAD has worked with the Department of Economic and Social Affairs of the United Nations Secretariat, ILO and UNIDO in extending EMPRETEC-type projects to Egypt, Indonesia, Pakistan, the Philippines and Viet Nam. In cooperation with the Netherlands aid programme, UNCTAD has implemented small and medium-sized enterprise support projects for the least developed countries — Burkina Faso, Nepal, Samoa and Zambia — and in the promotion of women entrepreneurs in 10 least developed countries.

18. UNCTAD and UNIDO signed an agreement in April 1996 to cooperate on increasing investment promotion and enterprise development, especially for small and medium-sized enterprises. Similar agreements already exist between UNCTAD and the Department of Economic and Social Affairs, UNIDO and ILO and with the Food and Agriculture Organization of the United Nations (FAO) on entrepreneurship development.

19. In October 1996, UNIDO organized a conference aimed at the establishment of an International Business Advisory Council (IBAC), at which more than 100 industrial executives from the private sector of countries in Africa, Asia, Europe and Latin America attended. The aim was to assist UNIDO to build more effective partnerships with private industry. IBAC will function as a think tank and advisory council for UNIDO, helping to build bridges between industry and Governments and making possible exchanges between private sector industrialists from developed countries and those from developing countries and economies in transition. UNIDO has also initiated the creation of a National Industrial Business Council (NIBC) in each country, the objective of which is to identify demand from the private sector for UNIDO and other support services. At the same time, the NIBCs will help provide sources of expertise to UNIDO.

20. UNIDO has made a considerable effort in recent years to increase the involvement of private sector entities, especially using private sector institutions and associations as project counterparts, that is, implementation agencies of UNIDO-supported projects. Indeed, the share of such private sector counterparts in all UNIDO technical cooperation projects increased from slightly more than one quarter in 1992 to about one half in 1995. One implication of the increased participation of the private sector in UNIDO technical assistance projects — both as counterparts and as beneficiaries — is that the services demanded from UNIDO have become more specific and sophisticated: up-to-date expertise is needed to advise, for instance, on competitive and environmentally friendly management.

IV. Micro-finance

21. In developing countries, particularly the least developed in Africa and Asia, entrepreneurship and the growth of private enterprise is expressed mainly in the creation of self-employment and micro-businesses, a considerable number of which are operated by women. These micro-enterprises, employing either a single person or a few, mostly family, employees, are mainly the response of the poor to the inability of those countries to provide sufficient employment opportunities in the formal business sector. In most developing countries in Africa and Latin America more than 50 per cent of the population are engaged in informal micro-business activities and these are often among the poorest people in the population. For this reason, the micro-enterprise sector has correctly been identified with the poor, and donor support for the expansion of micro-credit to provide finance for micro-business development is seen as a major effort towards poverty alleviation.

22. One major initiative, of which UNDP was one of the main supporters, was the Micro-credit Summit held in Washington, D.C., in February 1997, which brought together 2,500 participants from more than 100 countries, including beneficiaries of micro-finance programmes, organizers of micro-credit projects, commercial and development banks, non-governmental organizations, multilateral and bilateral donors, as well as heads of Government and senior officials who were heads of small business promotional institutions. The Summit participants affirmed that micro-credit — small loans of $200 to $500 for micro-businesses, mostly channelled through non-governmental organizations — was a most effective tool in poverty reduction. The Micro-credit Summit issued a declaration to expand such credit to reach 100 million poor families, especially the women of those families, by the year 2005.

23. UNDP, apart from lending considerable support to the Summit, also launched simultaneously a global micro-finance programme, known as Microstart, which was to initiate and expand micro-finance activities. The programme draws on the best experiences and methodologies applied in a number of countries. The activities of the programme focus on lending very small amounts of credit to self-employed micro-entrepreneurs, especially women. Organizations, principally non-governmental organizations, participating in the programme and receiving technical assistance as well as capital grants of up to $150,000 for loans and overhead costs must demonstrate potential and commitment to become self-sustainable, in a specified time, from the interest rates and fees charged to their micro-entrepreneur clients. An international subcontractor (including the most experienced micro-finance organizations in the world, such as the Grameen Bank), together with a selected local technical service provider, will supply a wide range of services to the organizations participating in the programme. Twenty-five countries will participate in the pilot phase of the programme now being implemented.

24. The greater emphasis placed recently on micro-credit with the creation of the Consultative Group for the Alleviation of Poverty — a grouping of a large number of donor agencies, both multilateral and bilateral, coordinated by the World Bank — has produced an impressive cooperative effort in support of micro-credit.

25. FAO has also been active in the promotion of micro-finance. It launched programmes in the United Republic of Tanzania and Zambia, which will be extended to other countries after 1997, aimed at developing practical guidelines for the strengthening of rural micro-finance cooperation mechanisms at the village level. In this connection, FAO held a regional meeting at Bangkok in May 1997 to develop new strategies and programmes to improve the income-earning capacity of the disabled in rural areas in specific business fields.

26. Support for micro-businesses has always involved the gender issue as women participate in great numbers in running micro-enterprises. The United Nations Development Fund for Women (UNIFEM) — the United Nations agency assisting women in business — has been active in working with Governments, non-governmental organizations, women's organizations and other advisory agencies in developing innovative approaches to increase women's access to credit, technology training and other advisory and assistance services to make women's businesses more productive and profitable.

V. Privatization

27. The scope of the restructuring of the role of the State and the private sector in most countries has been expanded and the privatization process has gathered momentum, especially after the collapse of the centrally planned regimes of eastern and central Europe and the former Soviet Union in the period from 1989 to 1991. In an attempt to move rapidly to a market economy, the former centrally planned countries have used privatization as a major instrument in this change.

28. It is not surprising that the actual transfer of State-owned business assets to the private sector has been relatively slow in developing countries. Such privatizations

are difficult where people are poor and domestic savings are low. To achieve successful sales of public enterprises to the private sector, it is necessary to have a strong legislative framework, a high degree of capital market development and, in many cases, sufficient persons with the capacity and integrity to develop an effective regulatory system. A sound banking system and a reliable judicial process is also necessary. Much of the above is lacking in most developing countries.

29. Voucher schemes and other forms of wide distribution of ownership of privatized assets do little to improve the efficiency of the actual operation of those enterprises. Raising productivity and reducing continuous losses that drain resources from State treasuries, it should be recalled, are two of the major aims of privatization. Where privatization is carried out solely for fiscal benefits or to satisfy political (or donor) pressures, even if care is taken that the assets are distributed as equitably and socially acceptably as possible, the hoped-for economic benefits are often not achieved. If a Government wishes to improve the efficiency of the operation of former State enterprises, it has to consider giving ownership and management to investors who have the experience and skills to upgrade the performance, even if that means, at times, selling the assets to foreign buyers.

30. Privatization in its various forms can increase opportunities in diverse ways. The privatized assets themselves could open up opportunities for the private sector for potential entrepreneurs, if qualified local business people with the skills and attributes to make a success of the takeover are enabled to participate in the process. Privatization virtually always leads to employment redundancies, and there is usually a general slimming down of the enterprise closer to the core activities. In general, after the privatization, about 30 to 50 per cent of the workforce is shed within the first few years.

31. The United Nations system has sought to assist in this difficult process of privatization. In 1994 UNCTAD set up an Ad Hoc Working Group on Comparative Experiences with Privatization (following the eighth session of UNCTAD, in Cartagena) which raised substantial interest. National seminars and meetings were held in Zimbabwe and Uzbekistan in 1995 and in Zambia in 1996. International meetings on the experience of privatization have been organized jointly by UNCTAD, the World Bank and the Organisation for Economic Cooperation and Development (OECD), for example, at Prague in May 1996. UNCTAD has also issued a major publication, *Comparative Experiences with Privatization*, in 1995, which has helped to disseminate information on experiences of privatization in various countries.

32. The Economic and Social Commission for Asia and the Pacific (ESCAP) has undertaken several studies on the legal and institutional aspects of privatization. It has organized regional and subregional seminars on privatization and private sector development at Karachi in 1994, Bangkok in 1996 and Almaty, for the central Asian economies in transition, in May 1997.

33. UNIDO also directly advised the Governments of Peru and Yemen on support systems the Governments need to develop successful privatization programmes. Counterparts from the privatization agencies of those countries visited North America and Europe to learn more about the experiences of privatization at first hand.

34. ILO is concerned with the impact of privatization on the interests of employers and employees and is currently implementing a two-year (1996-1997) action programme on privatization, structuring and economic democracy. The programme aims to highlight the organizational and social principles of implementing privatization programmes successfully.

35. FAO has also been working on the restructuring of rural institutions in more than 20 countries of Asia, the Middle East and Latin America. The restructuring has involved the privatization of some of the activities that had previously been undertaken by the State in the field of rural development.

36. A post-privatization conference for Latin America was organized by the Department for Development Support and Management Services of the United Nations Secretariat and the Private Sector Development Programme of UNDP in Argentina in October 1995, focusing on three main areas: regulatory and monopoly issues, competition and the enabling environment and provision of social safety nets. The conference also discussed how to resolve problems of regulating monopolies, before and after privatization, and how to eliminate restrictive business practices preventing the emergence of competition in the provision of public services.

37. Technical assistance on public enterprise reform and post-privatization regulation was provided by advisory missions of the Department for Development Support and Management Services to Ghana, Ethiopia and Fiji, and an international conference on performance contracting was held at New Delhi in January 1997, at which the goals of public enterprise reform in the context of privatization and contracting out were re-examined.

38. Various ways are now being proposed and tried to introduce private capital and management expertise for construction of infrastructure (roads, railways, bridges, power stations) through such arrangements as build-operate-transfer (BOT) contracts. The Private Sector Development Programme of UNDP has assisted in some countries. Such contracts, whereby the infrastructure is transferred to the Government after a private company has constructed and operated the facility at its own expense for a number of years and has been allowed to obtain a reasonable return on its investment, need careful monitoring as do arrangements for leasing of factories and facilities, as well as the offer of concessions (mining, logging, etc.) to foreign private companies.

39. Social safety nets have mitigated the damaging impact of some policy reforms on the poor and on the more vulnerable elements of the population. As indicated earlier, structural adjustment and policy reform do not quickly improve the quality of life for all the population. Following the major economic changes in the wake of large-scale privatization and restructuring, many people lose their jobs and others lose their livelihoods through the collapse of small and micro-businesses owing to the inability to compete in open liberalized markets. Social safety nets will differ in each country but generally will involve setting up a special social development fund. The fund usually provides financial relief to those made unemployed through privatization and restructuring, ensures continuation of benefits to the elderly and disabled, offers loans or grants for small business start-up or for retraining and may help set up business advice centres to assist those considering becoming self-employed and setting up their own businesses.

VI. Restructuring of the military industry for civilian markets

40. A major problem confronting many countries in transition to market economies in eastern and central Europe, the former Soviet Union and the Far East is how to convert military manufacturing to the production of products for civilian use. There are vast resources of technical skills and competence, as well as of high-technology equipment invested in military industries and facilities that could provide the basis for development of high-technology industry for the industrial and consumer market.

41. A major conference was organized jointly by the Department for Development Support and Management Services and the State of Rheinland-Pfaltz, Germany, in October 1996, in cooperation with the European Commission. More than 150 representatives from over 30 countries participated. The conference provided a forum for an exchange of views and experiences of various countries in the decommissioning of military bases and defence industries, and focused on conceptual as well as practical aspects. The major issues addressed included providing an enabling environment for conversion at both national and local levels; the role of public and private sectors; conversion of military bases and defence industries to export processing zones; tourism development in former military bases and defence complexes; civilian manufacturing, prospects for small and medium-sized enterprise development; and continuity of social infrastructure services.

42. Military conversion is particularly important to the social and economic stabilization of countries that have experienced internal conflicts. Regrettably, there are a number of such countries — Angola, Cambodia, El Salvador, Ethiopia, Guatemala, Mozambique, South Africa, the Sudan, Viet Nam. All those countries that have emerged from conflict have had to rebuild their economies through private sector development, not only in transforming whatever military industries may have operated (mostly under State control), but also in converting military sites, demobilizing those who have fought in the conflict and disposing of surplus weapons.

43. In the economies in transition there are large concentrations of military industries in districts where there are few alternative employment possibilities. The skills needed in a private enterprise engaged in civilian production are somewhat different from those required in military production. This calls for a new approach by workers and managers, involving a change from the attitude of working in State enterprises to the outlook of private businesses engaged in finding markets and making a profit. Retraining of workers both in skills and in attitudes is necessary.

44. A specific public-private partnership undertaken by the Department for Development Support and Management Services is a two-year UNDP-funded project on military industry conversion in China. The project involved workshops conducted in Chongqing and Wuhan in 1995 for senior managers from 75 selected converted enterprises to address issues related to adjustment of military manufacturing in China, followed by a selected group of military enterprises developing conversion/business plans on the basis of a clear market orientation. The workshops will facilitate interaction with the international business community, leading to joint ventures, licensing and other co-production arrangements, and an international conference to disseminate the lessons of the experience.

VII. The enabling environment

45. Private sector development can normally flourish in an environment in which market forces are allowed to determine the form that development will take. In market economies, which most developing countries and economies in transition are now working to create, private entrepreneurs are encouraged to seize economic opportunities to develop products and to provide services in response to market demands. Unfortunately, this development cannot take place overnight. After years of heavy government restraint, the private sector is often too weak in financial resources, skills and technological information to be able to compete with higher-quality and cheaper imports when trade is liberalized. Some small enterprises may fail in trying to make the transition to market economies. After years of living under centrally planned regimes where the private sector hardly existed — as in the countries of eastern and central Europe and the former Soviet Union — most fledgling entrepreneurs lacked financial and business experience and the facilities were not available for them to start operating.

46. The entrepreneurial surge which, it is hoped, will ultimately result from the process of liberalization and deregulation can only be expected to take place after some time has elapsed, after support services to help with the technicalities of start-up have been set up and there has been the opportunity to upgrade technologies. However, most successful enterprises that do survive and grow will be strong and competitive and able to take their place in the global economy. Through competition, the incentive is strong to keep costs down and produce and distribute products and services of high quality and that are keenly priced. The quality of goods produced improves because the markets will reject inferior products that offer less then true value for the price charged. As an economy is opened up and there are less restrictive regulations, the role of Government is inevitably reduced and the opportunity for a wide range of corrupt practices is lessened.

47. International cooperation and partnership have a vital role in creating a favourable climate in which capital flows, investment and trade can flourish. The Economic and Social Council concluded in 1997 that the broad elements of an enabling international environment include: the creation and maintenance of stable international conditions; democratization in international relations in accordance with the Charter of the United Nations and international law; establishment of an open, rule-based, equitable, secure, non-discriminatory, transparent and predictable multilateral trading system; and support for the weakest and most vulnerable members of the international community through more favourable treatment in trade and finance.[2]

A. Legal and regulatory framework

48. The Government's activities can be redefined and reduced in scope as it withdraws from the direct provision of services and manufacture. Experience has shown that Governments are unsuited for this latter role but the Government can continue to play a vital role in creating an effective legal and regulatory framework in which the private sector is enabled to operate. As those in countries moving towards a market economy keep pointing out, the private sector cannot develop fully unless the Government institutes a legal framework that guarantees and protects private property, governs business relationships and enforces the commitments involved in business contracts. Suitable enforceable legislation is needed as related to the personal liabilities of owners and the bankruptcy of businesses as well as the obligations of those involved. An adequate legal framework is vital in developing an enabling environment in which business creation and operation can function successfully.

49. United Nations agencies have been active in assisting developing countries in preparing appropriate legal frameworks. In 1996, the Department for Development Support and Management Services of the United Nations Secretariat undertook a study on entrepreneurial law in Africa to identify the elements of an appropriate legal regime for entrepreneurial development. The study, drawing on the experiences of Ghana, Kenya and South Africa, identifies the main factors that affect the legal and regulatory framework for entrepreneurship and small business development in Africa. It deals with specific aspects of the situation in Ghana, Kenya and South Africa, giving prescriptions for the improvement of such frameworks. Recommendations are also made for establishing an enabling legal regime for the development of entrepreneurship and small enterprises in other African countries.

50. Some of the major complaints of businessmen, especially in small enterprises, against Governments, particularly in developing countries, are of excessive and burdensome regulations. Deregulation — the process of simplifying the regulatory system and abolishing altogether unnecessary and unenforceable regulations — has now become a watchword for government reforms in all countries, developed and developing.

51. In the Middle East, UNDP has helped countries embark on programmes of regulatory reform. In Jordan,

assistance and advice has been given — together with UNIDO — to streamline regulations to help boost exports. In Lebanon, UNDP has assisted in promoting administrative reform and has assisted the Government to rehabilitate public administration after the ravages of the civil war. In collaboration with the International Monetary Fund and UNCTAD, UNDP has helped the Government to revise the tariff and customs structure and procedures. In Asia, UNDP efforts have been of particular significance in Viet Nam in assisting the Government to introduce general legal reforms needed for transition to a market economy.

52. In Latin America, UNDP has helped several countries to develop a more effective and reliable judicial system to enforce laws in a timely and just manner so as to create business confidence in the legal system.

53. As privatization proceeds and more public enterprises are sold to private ownership, a new form of regulation may be required in which responsibility for the provision of monopoly public services is handed over to the private sector. Regulation is needed to ensure that the interests of consumers, that is, the public, are served even if profit is a major objective of the new owners. When the provision of such vital services as telecommunications, electricity supply, railways, freight transport, fuel distribution and so forth are acquired by private owners, whether through the acquisition of a State monopoly by a single large private corporation or through a widely distributed share ownership, it is appropriate that the Government set up an independent and effective regulatory body to look after consumer interests and wider national and environmental concerns. Where there is full competition in the provision of privatized services, there is less need for regulation, although even in some such situations, a form of regulation may help to ensure quality standards.

B. Taxation

54. One of the problems in the relationship between Government and private business is that of taxation. In a modern market economy some taxes have to be paid by all individuals and commercial organizations that benefit from income above a certain agreed level. In virtually all countries, small businesses complain both of high penal levels of taxation and of the costs of compliance with the bureaucracy involved in determining how much tax has to be paid and in paying the amount in the required instalments.

55. Taxes should be as low as feasible and broad-based, with as few exceptions and exemptions as possible. It is unhealthy in an economy that the investment decisions of entrepreneurs should be motivated by tax considerations, and the national economic interest is least served in such a situation. Investment decisions should be made in the light of the expected economic returns and not because of tax advantages.

56. The tax system should be as simple as possible to avoid loopholes that encourage avoidance and evasion. Penally high taxes have many serious negative effects. They discourage work effort but most of all they distort investment decisions and act as a disincentive to growth and expansion and even to employment creation. In fact, in many developing countries, high and discriminatory tax rates result in driving businesses underground into the informal sector where they pay no taxes and the Government loses all the revenue. Also, when taxes are unreasonably high, small businesses have difficulty in accumulating the required capital from retained earnings to develop and expand.

57. Most developing countries as well as countries in transition to market economies face problems in enforcing tax laws and in collecting taxes, and this is undoubtedly made even more difficult when taxes are unreasonably high. It is far more effective to have broad-based, relatively low tax rates and a simplified system that the authorities are able to enforce and collect, rather than high rates in theory, of which a large part remains uncollected.

58. It is more effective and economically sound that taxes paid by business on earnings should form a greater part of government revenue than income from customs tariffs, high registration fees and excessive levies on services. It is also counterproductive for Governments to take high tax payments from a small number of foreign corporations that cannot avoid payment rather than collect broad-based low taxes from all businesses, thus ensuring a level playing field for commercial competition between firms. Taxing mainly foreign-owned firms will ultimately deter foreign investment.

59. Taxation is a field in which more donor agency assistance is needed to help developing countries institute and implement an appropriate tax system.

C. Foreign investment

60. With low levels of domestic savings and a dearth of local capital many privatization offers of State enterprises in developing and transition countries are taken up by foreign buyers. In some of those countries distinct efforts are made to interest foreign investors in the belief that only they could have the financial, technological and managerial

resources, to generate the greatest improvements in efficiency in the operation of the assets being sold.

61. Foreign investment in general and the sale of State enterprises to overseas buyers in particular tends to arouse conflicts between those who doubt the commitment and motives of foreign investors and those who want the most efficient solutions. Most countries accept the need, even the urgent need, for foreign investment and recognize that it is the only way they can obtain the financial inflows and technology transfer without which they cannot make the leap forward in development needed to raise living standards. It is important, however, that developing countries are well advised and assisted to help obtain the best deals in negotiating with foreign investors.

62. There has been a tremendous increase in private capital flows to developing countries (including transition economies) in the past few years. The World Bank reports that the private capital flow to those countries has increased from $44 billion in 1990 to $230 billion in 1996, dwarfing official development assistance, which has stagnated at $40 billion to $50 billion per year. Unfortunately, not all countries have benefited equally. In 1995 only 12 countries received 76 per cent of total private capital flows. The World Bank sees a major role for itself (in cooperation with other donors) in diversifying the destination of private investments, in particular to sub-Saharan African countries, which received only 5 per cent or $12.1 billion of the private capital flow to developing countries in 1996.

VIII. Partnership between the public and private sectors

63. In most developing countries and particularly in economies in transition, the indigenous private sector is weak, both in size and in power, and is poorly organized. This inevitably makes the Government the dominant institution in the country that has to take the lead in planning the physical infrastructure and human resources development. If the private sector is to be the engine of growth, it must be helped to fulfil its role to implement the Government's plan.

64. Also, as the private sector is weak in those countries, it needs the Government's help in setting up support initiatives, in the manner described above, in areas such as finance, research and development, new technologies, market research (especially in export promotion) and training.

65. The agencies of the United Nations system are engaged in the strengthening of consultations and relationships with the private sector worldwide. In the reform programme of July 1997, the Secretary-General announced that he would work towards establishing a jointly funded inter-agency business liaison service, along the lines of the non-governmental liaison service already in existence. Arrangements will also be made with leading business organizations to establish improved mechanisms for continuing the dialogue between representatives of businesses and the United Nations.

66. In April 1996, the Department for Development Support in Management Services of the United Nations Secretariat organized a technical colloquium — "In pursuit of the public-private partnership in a market economy and economies in transition". The objective of the colloquium was to draw upon the real experiences of high-level executives from developed, developing and transitional economies, in order to extract comparative lessons on impediments to successful public-private partnerships worldwide. The colloquium concluded that, for public-private partnership to exist, there must be expectations of social gain on the part of Government and of commercial gain on the part of business. These expectations are expressed in management contracts, leases, concessions, BOT contracts, contracts of sale in the case of privatization by disinvestment, etc. The Governments of many countries do not have the technical capacity to structure and negotiate the contracts nor do they have the capacity to monitor and enforce them. The colloquium pointed to the need for technical assistance in building national capacity in contract negotiation, monitoring and enforcement.

67. The United Nations Environment Programme (UNEP) launched two statements of environment commitment, one for the banking sector and the other for the insurance industry. Those statements require banks and insurance companies to adopt sound environmental practices. By March 1997, 94 banks and 64 insurance companies from 25 countries had signed up. UNEP continues to work with private and public banks to promote the role of the financial service sector in sustainable development.

68. Public-private partnerships, whether entirely domestic or involving foreign partners, can be a means of realizing military conversions. Small and medium-sized enterprises that have a high employment potential should especially be promoted, such as service businesses that originate from military research and development or military sites. Examples are enterprises providing health services, warehousing, retailing and wholesaling, port and airport

services, maintenance services, transport, tourism, education, training and information services.

69. It should be noted that although in most developing and transition countries, the main problem is a weak, disorganized private sector and conflict between Government and private business, there are a few middle-income countries, mainly in the Far East and in Latin America, where cooperation between Government and the private sector reaches a cozy relationship to the point where the elected Government and big business can collude to serve the interests of business rather than the country as a whole. In such situations, the danger of corruption in Government is high and those suffering may be small businesses that have neither the influence nor the contacts to obtain the favours from which larger firms benefit.

70. On 16 December 1996, the General Assembly adopted resolution 51/191 entitled "United Nations Declaration against Corruption and Bribery in International Commercial Transactions", and in May 1997 OECD ratified an agreement by the leading industrialized countries of the world outlawing the bribery of foreign officials by the end of 1998 and ending the tax deductibility of such payments.

IX. Recommendations

71. Further efforts by the United Nations and the organizations of the United Nations system should be encouraged to build partnerships and consult with the private sector with a view to achieving developmental objectives, including the goals established by international conferences.

72. The organizations of the United Nations system should be encouraged to continue their efforts to support entrepreneurship, privatization, demonopolization and the simplification of administrative procedures, in accordance with General Assembly resolutions 48/180 and 50/106.

73. The recommendations of the Micro-credit Summit held in February 1997 are welcomed and all actors should be encouraged to work towards achieving those recommendations and expanding micro-credit to reach 100 million families by the year 2005. The organizations of the United Nations system should be encouraged to continue and enhance their micro-credit programmes and to support the gender objectives in particular.

74. Governments and the organizations of the United Nations system should strengthen and better coordinate their support to small and medium-sized enterprises. They should strengthen their support for the conversion of military industries and bases to civilian use.

75. The organizations of the United Nations system should provide more assistance to Governments in streamlining and simplifying their tax systems and strengthening tax administration.

76. The United Nations system and other donors should work together in advising and assisting Governments at their request in ensuring that the public interest is respected in privately run public services.

77. The agreed conclusions of the Economic and Social Council on fostering an enabling environment should be implemented, in particular as they relate to national and international action to make the environment conducive to investment and trade.

Notes

[1] The Department for Development Support and Management Services of the United Nations Secretariat, ECA, ECLAC, ESCAP, ESCWA, FAO, ILO, UNCTAD, UNDP, UNEP, UNIDO, UNIFEM and the World Bank.

[2] *Official Records of the General Assembly, Fifty-second Session, Supplement No. 3* (A/52/3/Rev.1), chap. II, agreed conclusions 1997/1.